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ABSTRACT

Based on the view that early care and education programs must have substantial non-tuition revenue from the public and private sectors to reduce the proportion of costs for high quality programs passed on to families as tuition costs, this report presents a methodology for identifying an "expected family contribution," a representation of what a family is able to pay for care based on an analysis of its income and assets. Also considered in this methodology is a calculation to determine the price of high quality care and education, based on the cost of reaching and maintaining standards of excellence minus the public and private sector support obtained to subsidize those costs. The Early Care and Education Need Analysis Methodology (ECE Methodology) is designed for use in conjunction with a community-based financial aid office within the context of a coordinated finance system. The report describes the basis of the ECE Methodology and describes how the formula is used, including measuring income, identifying allowances against income, and identifying assets and allowances against assets. Assessment rates are discussed as well as the issue of expected family contributions families have with multiple children in early care and education programs. The report discusses the importance of conducting annual need analyses to have current eligibility information and the use of professional judgment. Also discussed are development of a financial aid application form and the importance of periodic revision and updating of the methodology. The report concludes by noting that the ECE Methodology draws on both the federal and higher education institutional models currently used in higher education, relying on the strengths of each. The report's five appendices include computation tables, data sources and calculations for 2000-2001, a methodology worksheet, and a draft financial aid application form. (KB)

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TECHNICAL REPORT

A Financial Aid Need Analysis Methodology for Early Care and Education

Teresa Vast and Sandy Baum • July 2001

(Supplement to the "Learning Between Systems" project)

A Financial Aid Need Analysis Methodology
for
Early Care and Education

Technical Report

Learning Between Systems:
Adapting Higher Education Financing Methods to Early Care and Education

by

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The *Learning Between Systems* project involved several key people who contributed extensively to the development of the methodology described in this paper. In addition to the authors, the project team consisted of Jerry S. Davis (Lumina Foundation for Education), Melinda Green (National Black Child Development Institute), Kathleen Little (College Board), Michele Piel (Illinois Department of Human Services), and Catherine Thomas (University of Southern California). Each member of the team participated in the discussions and decision-making in the development of the methodology and application over the course of 18 months, bringing unique perspectives and keen insights to the process. We especially thank Cathy Thomas and Kathie Little for their additional assistance, which extended far beyond their participation in the project team meetings.

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We are also grateful to the many reviewers who lent their considerable expertise in need analysis, eligibility determination, cost of living analysis, public policy, and financial aid administration. Their comments helped to surface critical issues for discussion and research and, ultimately, helped to strengthen the methodology that has evolved. We also wish to thank all others who provided assistance and encouragement for this undertaking.

Despite the involvement of many talented thinkers and the improvements to the methodology that resulted, the final draft methodology presented here differs in some respects from earlier drafts, and thus is the sole responsibility of the authors.

Introduction

This need analysis methodology was designed to increase families' access to high-quality early care and education (ECE). It is adapted from the methodologies currently in use in the delivery of postsecondary financial aid, and is guided by a set of principles for early care and education need analysis. This methodology is envisioned as an essential element of a coordinated early care and education finance system.

To succeed, an early care and education finance system must cultivate significant resources that will support the provision of high-quality early care and education programs. Not only do many families need help paying for high-quality early care and education, providers of early care and education services need considerable resources to produce it. Families cannot pay all of the costs that programs incur to deliver high-quality services. As in higher education, programs must have substantial non-tuition revenue from the public and private sectors to reduce the proportion of costs passed on to families in the tuition prices they establish. Some families will be able to pay the full price charged; many others will need financial aid to help pay it.

The methodology described in this paper produces an "expected family contribution"—a representation of what a family is able to pay, based on an analysis of its income and assets. However, this is only part of the equation in answering the question, "How much assistance does the family need?" The amount of assistance a family needs is directly related to the price of the services they seek, as illustrated by the following calculation:

Price – Expected Family Contribution = Need

A separate calculation is necessary to establish the price of high-quality programs —a crucial analysis to be undertaken by each early care and education program itself. This entails several steps: identifying the true cost of reaching and maintaining standards of excellence that support children's healthy development and learning; seeking and obtaining support to subsidize these costs; and then, establishing a price that covers the difference. Simply put, the calculation is:

Cost – Subsidies = Price

Subsidies refer to funds, goods, or services given directly to the program that offset the costs, thus reducing the amount of revenue to be sought in tuition and fees from families. For example, a program that receives free food for meals and snacks can charge a lower price than a similar program that has no subsidies and must purchase its food. Programs need substantial non-tuition revenue to offset the cost of providing adequate and equitable compensation to staff while also setting a price that is affordable for at least some of the area's families.

Once a price is established that reflects the unsubsidized portion of costs in a high-quality program, the question about a family's need for aid can finally be answered. With a means to calculate need, there is also the basis for estimating the extent of *unmet* need—critical information for use in advocacy and public policy efforts. While the methodology can determine the amount of aid each family needs, equal access to high-quality services cannot be achieved without adequate funding for need-based financial aid.

The Early Care and Education Need Analysis Methodology (also referred to here as the ECE Methodology) is thus one tool in a finance system that will require several other tools, resources, and processes. For example, its use is envisioned in conjunction with a community-based financial aid office. The financial aid office would use the methodology to calculate the family's expected contribution and need for aid; package available aid to meet identified need to the extent possible; and deliver aid in behalf of families to programs they have chosen and that adhere to acceptable standards of quality and accountability.

It is within this context of a coordinated finance system that the ECE Methodology is intended to be instrumental in increasing access to high-quality early care and education. However, equal opportunity for America's young children cannot be achieved without sufficient investment to offset the cost of producing the quality of services that is associated with good developmental outcomes for young children.

The Early Care and Education Need Analysis Methodology

The formula described here measures parents' ability to pay by considering income, assets, and other relevant data. No formula can capture all aspects of family circumstances, nor can it assure a perfectly equitable and efficient allocation of resources. However, the more closely the early care and education community adheres to the principles embodied in the proposed formula, the more likely it is that limited available funds would be distributed to those who need them most.

The early care and education need analysis methodology borrows heavily from the need analysis methods currently in use to calculate expected parental contributions for college. There are two separate formulas that are widely used in higher education. One is the Federal Methodology (FM), legislated by Congress as the basis for distributing federal need-based student aid funds. The other is the Institutional Methodology (IM), devised and maintained by the College Board and used by many private non-profit and some public colleges and universities to allocate their own need-based aid funds. The two systems share many elements, but there are also some fundamental differences.

Both the FM and IM measure income and subtract a basic living allowance, taxes, and a few other essential expenses before calculating expected contributions. The assessment rate schedules on discretionary income are progressive in both systems and are quite similar. Assets, however, are treated quite differently. The FM excludes consideration of both home equity and family farms for all families and ignores assets entirely for families with incomes below $50,000. For families with higher incomes, the FM adds a percentage of assets to income before calculating the expected contribution. The IM, on the other hand, measures all assets except pension assets and taxes them at progressive rates, ranging from 3 percent to 5 percent.

Basically, the IM is a more complex system that makes finer distinctions among families in order to rank them by their true financial strength. The FM is a simpler system, but sacrifices a considerable amount of equity. For example, under the FM, two families are treated similarly if they have similar incomes, even if one has major asset holdings and the other has neither a home nor financial assets.

The proposed ECE Methodology borrows from both the FM and IM in an attempt to construct a formula best suited to the circumstances of families with young children. While the ECE

Methodology is directly targeted at providing access to high-quality early care and education, a broader goal is to encourage and assist families in planning and providing for the long-term well-being of their children. Accordingly, we propose that the financial demands of college education, both for the parents and the children, be recognized in the early care and education need analysis system, allowing both for the parents' repayment of their student loans and for the need to save for their children's college education.

The ECE Methodology, described in detail below and in the appendices to this report, measures both income and assets. The formula subtracts basic allowances to determine the portion of each that is discretionary. Assessment rates are applied separately to discretionary income and discretionary assets. The sum of these calculations is the contribution toward early care and education expenses expected from the family.

Measuring income

Measuring income involves identifying whose income is to be counted, determining the size of the family the income supports, and counting the amount of income and cash benefits the family receives from various sources.

Family composition and size

A critical piece of information required to determine a family's level of discretionary income—out of which some portion can be allotted for early care and education—is to measure family size and identify whose income is to be counted. Clearly, a given amount of discretionary income allows greater ability to pay for early care and education for smaller families than for larger families. The issue of family size is considerably complicated by the diversity of family structures.

Determining the income available to finance early care and education begins with deciding whose income should be considered. For children living with two biological or adoptive parents, it is clear that the financial circumstances of the family—and not of anyone outside of the family—should be the basis for determining ability-to-pay. However, this situation is less and less common.

Family size is based on the household in which the child resides. This includes the custodial parent(s) (or legal guardians) and the current spouse of the custodial parent. Unmarried partners who are not the biological or adoptive parents of the child(ren) for whom assistance is sought are not counted in the family size if there is not a legal recognition of their responsibility for support of the child(ren), nor is their income included. In these situations, there is no practical way to determine whether the arrangement is a long-term one or not or whether or not household finances are pooled. However, any monetary contributions they make to the family can be counted as cash income.

Family size includes any dependent children living in the household for whom primary financial responsibility resides with the adults whose income is being considered by the need analysis method. Children under the age 19 are counted (including those for whom aid is sought), as are siblings under the age 24 who are currently enrolled in college at least half-time.

Members of the household over age 18 who are considered legal dependents are also counted, e.g., those with disabilities that prevent them from being self-sufficient. Extended family members who reside in the household are considered dependents and are counted in the family size definition only if they meet the Internal Revenue Service (IRS) gross income test for dependency. If the income of the extended family member is less than the threshold amount set by IRS, he or she is not counted in the family size. If the income exceeds the threshold, the family member is not counted in the family size. For the 2000-2001 year, the threshold amount is $2,750—the IRS gross income test amount for the 1999 tax year.

In the case of children of teen parents who live at home with their own parents, family size is limited to the child for whom assistance is sought and his or her parents living in the household. Even though the grandparents of the child(ren) may provide considerable support in the form of shelter and other resources, for purposes of determining aid in the early care and education system, only the income of the teen parents is considered, not the income of their parents. Thus, the teens and their child(ren) are considered a separate family unit. This recognizes the importance of teen parents continuing their own high school education for the ultimate benefit of themselves, their children, and society at large, and does not assume that the teen parent's parents are willing to provide support that allows the teen to complete high school rather than drop out of school to work and care for the child. However, monetary contributions to the teen from the child's grandparents are counted as income.

Income and data sources

Differences in income levels generate the clearest differences in families' ability to pay, especially at the relatively early stage of life most common among the parents of young children. Although financial capacity is best measured by income over an extended period of time, practical considerations dictate that the ECE Methodology rely on information about income for one year.

To verify the information provided on financial aid applications, the prior year's income tax forms will be collected. However, parents will also be asked to provide evidence of their current monthly income, including untaxed as well as taxable income. The aid administrator may want to select the current year as the basis for income analysis where there is a significant change in circumstances from the prior year.

To simplify data collection, the basic definition of income embodied in the need analysis method is adjusted gross income (AGI) from the federal personal income tax. However, non-taxable income is added to AGI before the contribution from income is determined. For example, dollar amounts of government benefits, including Social Security, workers' compensation, and disability benefits are counted. Other sources of income to the family, such as cash support or money paid in the family's behalf, are also added.

Treatment of stepparents' income. Clearly, custodial biological/adoptive parents have responsibility for their children, and their incomes constitute the basic resources available for paying for early care and education. However, the income of stepparents residing with the children is also part of the household income creating the living standard of the children and is therefore counted in the formula.

Treatment of non-custodial parents' income and support. Child support paid by non-custodial parents is counted as non-taxable income to the custodial parent. Although non-custodial parents may be able to contribute to early care and education expenses beyond the child support they pay, pursuing them to collect their "fair share" may not produce results that justify the efforts. The IM recognizes the fundamental responsibility of the child's parents to pay for college and provides a form, used by many colleges, to seek financial information from non-custodial parents. However, there is no established methodology for counting the resources of non-custodial parents.

It is frequently quite difficult to collect information about the resources of non-custodial parents and in many cases, the existence of these resources does not really make them available to the custodial parent and the child. In recognition of this, the proposed ECE Methodology, like the FM, does not seek information from non-custodial parents to establish their ability to pay. It only seeks to establish if there is an agreement in place for the non-custodial parent to contribute to the early care and education expenses of their children and the amount contributed. Like other support received from the non-custodial parent, these contributions count as income to the custodial parent, unless payments are made directly to the early care and education program. In these cases, the contribution from the non-custodial parents would count as a resource, thereby reducing the family's need for aid from other sources.

Treatment of income and support from parents with shared custody. In determining an appropriate contribution to the child's early care and education expenses from parents with shared custody who spend equal amounts of time with their child(ren), the ECE Methodology, like the FM and IM, considers the resources of the parent who provides the greater support. From the standpoint of equity, parents with shared custody also share responsibility for the child(ren)'s early care and education expenses and should contribute toward those expenses according to their ability. However, efficiency and simplicity are also goals in the methodology and in financial aid administration. It would likely be quite inefficient for the early care and education system to seek information from non-applicant parents with shared custody. Instead, parents could be advised that the application for financial aid should be submitted by the parent (and spouse, if remarried) who provides the greater financial support for the child.

As with non-custodial parents, neither the FM nor the IM has an established methodology for determining an appropriate contribution from parents with shared custody. Guidelines for financial aid administrators suggest options for how to proceed in considering contributions from parents in both non-custodial and shared-custody cases. In an early care and education system, complex custody issues would also be best addressed at the local level, where the specific circumstances of the families could be appropriately addressed in seeking to establish the expected family contribution for each child. As with contributions from non-custodial parents, those from parents with shared custody would be counted as resources in reducing need if payments are made directly to the early care and education program, but would be counted as income, similar to child support, if the payments were made to the other parent.

Cash gifts. Cash gifts received, such as gifts from household members who are not counted in the family, are counted as untaxed income. This includes gifts and money paid on behalf of the family for living expenses, such as support provided by a parent's unmarried partner or a teen parent's parents. It would also include money provided by family and friends to help pay for early care and education.

Employer plans. Some employers have plans that allow employees to designate a portion of their pre-tax income for dependent care and medical expenses. These amounts of untaxed earned income must be reported on the application form in addition to taxable earned income. Contributions to retirement accounts are also counted as untaxed income.

Contributions for ECE. Employer contributions for early care and education, as well as assistance provided by public and private agencies that is earmarked for early care and education, is not considered income, but counts as resources toward meeting a family's identified need for aid. This holds true whether the assistance is paid directly to the early care and education provider or to the parent to be paid to the provider, either in the form of a check, cash, or a voucher for services.

Income excluded from analysis. The federal Earned Income Tax Credit (EITC) is not counted as income. The same is true of any state earned income tax credit. This exclusion is to ensure compliance with both the letter and the spirit of federal regulations. The rules do not allow this credit to be considered in determining eligibility or benefit levels for Temporary Assistance to Needy Families (TANF), food stamps, Supplemental Security Income (SSI), and low-income housing assistance. Although the envisioned early care and education system is expected to combine non-federal and federal sources of funds for assistance, some current federal subsidies for child care are provided with TANF funds. Therefore, it simplifies the method to exclude the EITC from consideration in determining income.

Information excluded from analysis. There are some exceptions to the general rule of collecting information about income. Applications for children whose families are current recipients of TANF and/or food stamps need not include income and asset data. For these groups of applicants, it is assumed that the expected family contribution will be zero, based on the eligibility tests required for these forms of government assistance. The principle used to identify applicants who qualify for an "automatic zero contribution" based on their eligibility for TANF or food stamps can be applied to any means-tested programs. The principle is:

> Families that have already qualified for assistance or benefits on the basis of an analysis of their income and assets need not submit to an additional analysis for early care and education financial aid if (1) the income and asset eligibility standards of the programs for which they qualify are at or below the level of the income protection and other allowances in the ECE Methodology, and (2) their eligibility for those programs is verified.

Another exception is for applications on behalf of children in foster care. Income and asset information about the foster parents is not required. However, because some states provide additional assistance for early care and education for foster children, the application for foster children must include a question about the assistance foster parents receive specifically to pay for early care and education. This amount is counted as a resource in meeting the need for assistance, rather than as income.

Allowances against income

Before determining how much of their income families can reasonably be expected to spend for early care and education, expenditures over which they have no discretion must be subtracted. These include expenses for basic necessities—shelter, food, clothing, health care, transportation, etc.—and taxes. In addition, an allowance for employment expenses, saving for the child(ren)'s college education, and college loan repayment are subtracted from income.

The Income Protection Allowance

Some amount of after-tax income must be devoted to essential living expenses, and it is unreasonable to ask families to use any of that amount as a contribution to early care and education. Unfortunately, there is no simple way to determine how much of any family's budget is absolutely necessary. Both the FM and the IM include an *Income Protection Allowance* (IPA) designed to identify the amount of income below which a family has virtually no discretion over expenditures. Both are updated annually. The IPA for the ECE Methodology is based on the IPA incorporated in the IM, with some adjustments. Like the IPA in both the FM and IM, it will need annual updating.

The IM's IPA was chosen for adaptation because of the more current and in-depth research and analysis it represents. It is developed using current data from the Consumer Expenditure Survey (CES). The CES collects information about all family expenditures, whether for "basic necessities" or for other purchases. However, the CES data are adjusted, as described below, to approximate an expenditure level at which there is little discretion.

The ECE Methodology uses the weighted average of CES data for two family types: those in which the oldest child is younger than age 6, and those in which the oldest child is age 6 to age 17. Including the category with older children seems appropriate for two reasons: first, because many of these households also have children under age 6 and, second, the ECE Methodology can be used to determine ability to pay for "out-of-school-time" programs for their elementary and intermediate school-age children as well as early care and education for their younger children.

While CES data provide the basic information for constructing the Income Protection Allowance, several adjustments are necessary. These include subtracting expenditures for taxes and early care and education expenses and then adjusting for inflation and family size. Finally, average expenditures are converted to expenditures at the Lower Living Standard—expenditures judged to be frugal, but adequate for achieving an acceptable standard of living.[1] Each of these steps is described below.

Taxes. Taxes are subtracted from CES expenditures because taxes are calculated separately for each family based on income. As is true in the construction of the IPA of the IM, all personal taxes (federal, state, property, FICA) and sales taxes are subtracted.

Early care and education expenses. The difference in the purposes of the college and early childhood need analysis methods dictates a different approach to adjusting the expenditure data. The IM subtracts education expenditures from the CES data in calculating the IPA since the goal

[1] See Appendix C, *Data Sources and Calculations*, page 4, for additional information about the Lower Living Standard.

of the system is to calculate ability to pay for education and then to subsidize this expenditure. Parallel reasoning requires that the ECE Methodology subtract average early care and education expenditures from the total expenditures in the CES data to construct the IPA. To accomplish this, the amount spent for "day care centers, nursery, and preschools" as well as "babysitting and child care" are subtracted from the CES "personal services" category.

Adjustment for inflation. After subtracting taxes and early care and education expenses, the CES data from the most recent three years are adjusted for inflation using the Consumer Price Index.

Adjustment to Lower Living Standard. The data are adjusted to reflect the expenditures of a family living at a "lower living standard." This standard relies on the recommendations of a 1978 study done for the Bureau of Labor Statistics by the Institute for Research on Poverty at the University of Wisconsin-Madison. The study defined four budget levels: the Social Minimum Standard (50 percent of median), the Lower Living Standard (67 percent of median), the Prevailing Living Standard (median), and the Social Abundance Standard (150 percent of median). The Lower Living Standard is chosen as the best estimate of the level at which families begin to have some discretion over their expenditures.

Adjustment for family size. There are two adjustments for family size. The first is made to produce the average expenditures for a family of four—the amount from which the Lower Living Standard is calculated. In this first step, the average CES family size for each year's data is converted to a family size of four using an equivalence scale. Data from the two family types (those in which the oldest child is younger than age 6, and those in which the oldest child is age 6 to age 17) are then averaged to produce the IPA for a family of four, weighting the CES data based on the number of families represented in the survey.

The second adjustment is made to establish the IPA for families of different sizes. Starting with the IPA for a family of four, a family-size equivalence scale is employed to establish corresponding amounts for smaller and larger family sizes.

The ECE Methodology adopts an equivalence scale proposed by economist Patricia Ruggles in her 1990 book, *Drawing the Line: Alternative Poverty Measures and Their Implications for Public Policy.* The IM has also recently adopted Ruggles' equivalence scale. It reflects economies of scale in consumption as family size increases, and also smoothes out improbable differences between family sizes—a criticism of the FM scale and the former IM scale.

The choice of this equivalence scale was the result of a review of current literature on equivalence scales and the testing of several alternatives, including scales for adjusting the poverty thresholds that were recommended by the National Research Council in 1995[2] and highlighted by the Census Bureau in 1999 in its follow-up research.[3] Like all equivalence scales, the Ruggles method is not perfect. However, we believe it is well suited to the specific application we propose in the need analysis methodology. It retains the simplicity of a single

[2] Citro, Constance F. & Robert T Michael, (eds.) 1995. *Measuring Poverty: A New Approach.* Washington, DC: National Academy Press.

[3] Short, Kathleen, Thesia Garner, David Johnson, & Patricia Doyle. 1999. *Experimental Poverty Measures: 1990 to 1997,* U.S. Census Bureau, Current Population Reports, Consumer Income, P60-205. Washington, DC: U.S. Government Printing Office.

scale that allows for diversity of family composition without requiring—as some of the alternatives do—separate calculations based on numbers and ages of family members.

The equivalence scale proposed for the 2000-2001 ECE Methodology is shown below relative to a family of four, with the resulting Income Protection Allowance for each family size.[4]

Family Size	Equivalence Scale Relative to a Family of 4	Income Protection Allowance
2	0.71	$ 16,160
3	0.87	$ 19,790
4	1.00	$ 22,850
5	1.12	$ 25,550
6	1.22	$ 27,990
7	1.32	$ 30,230
8	1.41	$ 32,320

Geographic differences in cost of living. A significant problem with using a national standard for calculating ability to pay is that the cost of living varies throughout the country. Although some college financial aid administrators may consider the differences in cost of living when reviewing financial aid applications, the system does not uniformly incorporate such adjustments. There are few indices available for adjusting cost of living, and these have weaknesses in either geographic coverage or data sources.

As part of the development of the ECE Methodology, we sought a way to adjust the Income Protection Allowance to reflect cost-of-living differences in areas throughout the nation. In spite of extensive efforts, we were unable to identify a satisfactory data source or a sound method to accomplish this goal. We are not alone in these challenges. The National Research Council recommended in its 1995 report that the poverty thresholds be adjusted to account for regional differences in the cost of living. Recent papers on poverty measurement and the development of family budgets[5] reveal that researchers concur with this recommendation. We are encouraged that there is a great deal of interest in developing a sound method to account for cost-of-living differences. As the ECE Methodology evolves, an index for adjusting the IPA for these differences can be added based on new developments in the research community.

For now, the ECE Methodology is presented without an index or other method to adjust the IPA for cost-of-living differences. However, we remain committed to incorporating such an adjustment, and will continue to experiment with existing data in efforts to construct a sound calculation to account for these differences.

[4] For additional information on the calculation, see Appendix C, *Data Sources and Calculations*, page 8.
[5] See Bernstein, Jared, Chauna Brocht & Maggie Spade-Aguilar. 2000. *How Much is Enough? Basic Family Budgets for Working Families.* Washington, DC: Economic Policy Institute.

Taxes

Information on federal income taxes paid can easily be obtained from the tax forms provided by the family for verification purposes. Social Security and Medicare taxes are imputed from the wages of the family.

The amounts paid for state and local taxes, including property and sales taxes, in addition to income taxes, are more difficult to document than federal taxes. The ECE Methodology adopts the state and local tax tables that are part of the College Board's IM need analysis method. These tables are based on calculations by the non-profit Citizens for Tax Justice, a group responsible for the most thorough currently available analysis of state and local tax burdens on people at different income levels.

Medical and dental expenses

Some families face unusually high medical and dental expenses. The nature of these obligations reduces discretionary income. Therefore, the ECE Methodology, like the IM, includes an allowance for medical and/or dental expenses exceeding the average amount of these expenses paid by families, as measured in the CES (4 percent of total income for 2000-2001).

College (or other postsecondary) education expenses

Allowances related to expenses of postsecondary education are two-fold: first, an allowance for payments on parents' financial obligations for their own college education and, second, an allowance for college savings for their young children.

Some parents in the early care and education aid system may well be enrolled in college and have current financial obligations for college expenses. Others may be repaying student loans from prior college expenses. Parents' annual student loan payments for their own college education or for college loan obligations they have for their older children will be subtracted from income before the expected contribution is calculated. However, financial obligations for current postsecondary enrollment are not considered an allowance in the ECE Methodology. The rationale for excluding current college expenses is that since it is possible for almost any student to obtain a loan with deferred payment options—if not grants—to pay for college, this expense should not decrease the family's ability to pay for early care and education. Further, education expenditures (although a limited amount) are accounted for in the CES, which is the basis for the IPA.

An allowance to support parental saving for the child(ren)'s postsecondary education is also included. This mirrors the Annual Education Savings Allowance (AESA) in the IM. The early care and education allowance is based on the current enrollment-weighted average expenses for public and private four-year institutions from the College Board's *Annual Survey of Colleges*. For 2000-2001, this allowance is set at 1.8 percent of income to a maximum of $1,550 per child. The AESA will need to be adjusted annually as the College Board's calculations of the price of college education change. It is applied to each child beginning at age 6, rather than from birth, in recognition that early care and education expenses take priority over saving for college in the years before a child starts kindergarten. At that time, the amount the family has been contributing for early care and education can help pay for out-of-school-time programs and

college savings. The principle behind this calculation is that if parents save this specified fraction of their income every year from the time each child is age 6 to the time he or she reaches age 18, they will have saved approximately one-third of the amount they would be expected to contribute to their children's college education. The other two-thirds of their contribution would come from current income during college and from borrowing.

Employment expenses

A final allowance from income is designed to recognize the costs parents incur when they work. A two-parent family with two earners has less discretionary income than a similar family with the same income but only one earner. The difference is due to additional work-related expenses, such as clothing for work and transportation between home, workplace, and an early care and education program. Other work-related expenses include meals away from home and the purchases of household services to replace those of a stay-at-home adult. Like the FM and IM, the ECE Methodology includes an employment expense allowance to account for this phenomenon.

The allowance is based on the difference between the amounts one- and two-earner families spend on food away from home, gas, and other variable transportation costs, clothing and personal household services. It is calculated as a percentage of the earned income of a single parent or of the lesser income in a two-parent family, up to a maximum amount. The FM and IM have similar rates and maximum allowance amounts. However, the available background information about the IM formula makes it a better candidate for adaptation for the ECE Methodology. Further, the IM formula provides a method for updating the allowance annually. The ECE Employment Expense Allowance for 2000-2001 is calculated as 35 percent of the lesser (or single) earned income to a maximum of $3,120.

Assets

To the extent feasible, the financial aid system collects information on family assets because they affect a family's ability to pay for their children's care and education. The relevance of current income is obvious, since most people expect to pay for early care and education out of these funds. However, the role of assets in increasing a family's financial strength is also important.

Liquid assets, such as bank accounts and stock holdings, can clearly be liquidated if necessary. Even if these savings are earmarked for other purposes, families who have these funds are in a better position to use more of their current incomes than are those who have no such resources. Less-liquid assets, such as home equity, also increase a family's ability to pay. In addition to having increased access to credit, families who own homes do not have to pay rent, but instead make mortgage payments that in part are payments to themselves in the form of increased equity. Moreover, there is generally some, if not considerable, discretion about how assets are divided between home equity and more-liquid assets. Because of the discretion families have over the form in which they hold their assets, the need analysis method treats all assets similarly.

One significant gap in the current college need analysis methods is the omission of pension/retirement assets. The difficulty of collecting data on defined benefit pension plans has, to date, precluded the inclusion of these assets. This gap is less significant in the ECE

Methodology, since parents tend to be at an earlier stage of life and are likely to have accumulated less.

The early care and education financial aid application form, developed in conjunction with the ECE Methodology, asks parents to report the amount they hold in cash, checking and savings accounts, stocks, bonds, and other financial vehicles. It also collects information on the amount of equity families have in their homes, family farms and businesses, and other real estate.

For families that own homes purchased many years earlier, current home value may significantly exceed the price they could afford to pay if they bought a home today. Increases in home values frequently create a situation in which a family's ability to carry home equity debt is limited not by the amount of their equity, but by the level of their current income. To reflect a family's financial strength more accurately, the need analysis methodology limits home value to three times the level of current income when calculating the amount of home equity considered in the family's total assets. This provision is based on established banking standards for mortgages.

Farm and business equity receive additional protection because these assets generate income for the family. In these cases, equity may be out of line with the amount of liquidity that can be expected. Therefore, only a fraction of the actual value of these assets is included in the measurement of ability to pay. The schedule for counting these assets is the same in both the FM and the IM, and is included "as is" in the ECE Methodology. It counts 40 percent of the first $90,000, and higher percentages of larger assets.

A family's assets include not only the assets that parents hold in their own names, but also assets held in the names their children. For purposes of the ECE Methodology, all assets held in the names of any children in the family under age 18 are treated as family assets.

Allowances against assets

The ECE Methodology measures assets because they increase financial strength, not because there is an expectation that assets should be depleted before any subsidy is available. The fundamental way in which this is assured is that the assessment rate on assets— the amount by which the expected contribution is increased for every dollar of assets held—is quite low. In addition, a certain amount of assets is allowed to be set aside before any contribution at all is generated from assets. The FM has a single education savings/asset protection allowance based on the age of the older parent. It is designed to protect sufficient assets for retirement that, when combined with Social Security, would allow for a moderate living standard.

Until recently, the IM followed a similar approach in its treatment of assets, but has now replaced the single allowance with two separate savings allowances. The change acknowledges that, unlike the situation when the financial aid system began, retirement savings are not often reported in the aid application. Since assets held in tax-free retirement accounts are not tracked, the protection of assets for retirement is considered redundant. In its place, the IM instituted allowances to protect savings for an emergency reserve and postsecondary education, and an additional protection for low-income families with assets. The ECE Methodology follows this updated approach to allowances against assets.

Emergency Reserve Allowance. Prudent financial planning requires that families hold some amount of savings in case of unanticipated emergencies. Accordingly, the ECE Methodology, like the IM, provides for an Emergency Reserve Allowance. This allowance is equal to one half of median annual expenditures, adjusted for family size, thus protecting enough savings for six months of expenditures in case of an emergency. For example, in the 2000-2001 ECE Methodology, this asset allowance is calculated at $20,250 for a family of four. If, in the future, a method is adopted for adjusting the Income Protection Allowance to account for geographic differences in cost-of-living, a parallel adjustment will be made in the calculation of the Emergency Reserve Allowance.

Cumulative Education Savings Allowance. A second allowance against assets is a recognition of the family's need to save to finance college expenses for the child(ren) for whom assistance is sought, as well as for other children in the family. The Cumulative Education Savings Allowance (CESA), also a feature of the IM, protects assets in an amount consistent with the college savings allowance against income (the AESA), described previously. In other words, the allowance is based on protecting the amount a family would have saved for college if they followed the recommended savings plan from the time each child was age 6.

The CESA for the 2000-2001 Methodology protects an amount of assets for each child ages 6 to 18 that is equal to 1.8 percent of family income times the age of the child minus five, up to a maximum of $1,550 per year. In addition, for any children ages 18 to 23 enrolled in college, the CESA protects a portion of savings accumulated during the thirteen years prior to college entry beginning when the child was age 6 (1.8 percent of family income times 13). The assumption is that the savings will be used to pay the family's contribution for college each year over a period of four years.

Low-income asset allowance. Families with very low incomes should not be expected to contribute as much based on their assets as others. It is assumed that those who have negative discretionary income—for whom the allowances against income exceed total income—would need to dip into assets (if they have any) to supplement their incomes to cover basic living expenses. Therefore, any amount of negative discretionary income is subtracted from assets before calculating the expected contribution for early care and education from assets.

Assessment rates

There are two models for assessment rates currently in use. One option, used in the FM, is to add a fraction of assets to income, and assess these together at the same rate. Because of the progressive assessment rates embodied in the system, this approach assesses the assets of those with high-income levels more heavily than those with lower incomes. The alternative option, used in the IM, is to assess income and assets separately. With this structure, the assessment rate on assets can be either a flat rate or based only on asset levels, not on income levels. (The exception to the rule, noted above, is that low-income families are granted an additional allowance against assets.) The proposed ECE Methodology follows the IM approach of assessing income and assets separately.

Assessment of discretionary income

Discretionary income is defined as income not required for the most basic expenditures. In need analysis methods, it is the amount available from income after all allowances are subtracted. The assessment of discretionary income claims some fraction of every dollar for early care and education expenditures. As in both the FM and the IM, the assessment rate schedule of the ECE Methodology is progressive, with a relatively low marginal rate applied to the first dollars of discretionary income and higher marginal rates applied at higher income levels.

The assessment rates embodied in the FM and the IM range from 22 percent to a maximum of 46 percent to 47 percent. If discretionary income is zero, the contribution from discretionary income is zero; when there is negative discretionary income, a negative contribution results. The purpose of calculating a negative discretionary income is to recognize the relatively greater need of a family whose income does not cover basic living expenses. The aid administrator faced with distributing need-based aid from limited resources can rank those applicants with an expected contribution of zero by their level of negative discretionary income.

The FM rate table is established by Congress along with the rest of the FM, and is used in determining need for federal financial aid. The IM rate table is used primarily in providing aid from institutional (private) resources. For its initial assessment formula, the ECE Methodology adopts the FM rates. There is no compelling logic for any particular set of assessment rates, and since federal funds are currently the largest source of early care and education financial aid to families in most states, there is some logic to adopting the FM table at this time.

Assessment of assets

In the ECE Methodology, as in both the FM and the IM, only assets above the asset protection level are assessed. The ECE Methodology follows the IM in considering assets separately from income, but it proposes a higher assessment rate. Whereas the IM applies a rate of 3 percent to the first $25,000 of discretionary net worth, and marginal rates of 4 percent and 5 percent for greater amounts, the proposed ECE Methodology applies a flat rate of 10 percent to assets above the asset protection level.

The higher rate recognizes that families with young children generally have a longer period of time in which to accumulate assets for retirement than do families with college-age children, and that paying for high-quality early care and education is a reasonable use for a portion of assets. However, adjustments to the rate can be made for older parents by the financial aid administrator, using the general guidelines of the FM for protection of assets based on the ages of the parents.

Multiple children in early care and education

There is not a clear-cut answer to the question of how much a family should be expected to pay when they have two or more children in early care and education, relative to the amount they would pay if they had only one child in the system. Neither the FM nor the IM expects the family to double or triple the amount they would pay when two or three children are in college rather than one. Yet, the two methodologies take very different approaches to calculating the contribution when the family has more than one child in college.

In the FM, the total expected family contribution remains the same, divided by the number of children in the family attending college to determine the EFC for each. The IM expects a greater contribution when there is more than one child enrolled, but only a fraction of what the contribution would be if the EFC for one child were multiplied by the number of children in college.

The issue is not as simple as it might seem at first glance. On one hand, families rely primarily on current income to pay for care, and that current income does not yield greater ability to pay simply because there is a second child in the system.

On the other hand, the spacing of children should not significantly affect the amount families are expected to pay. Families with children spaced far apart will have to pay for child care for many years, whereas those with children close together will have their payments over with more quickly. The long-term circumstances of two families with similar income and assets and the same number of children are similar, regardless of whether their children are in early care and education programs simultaneously or sequentially.

Perhaps the best way to see the problem is to think of two families in similar financial circumstances, one with twins, and the other with two children five years apart. Suppose the expected contribution is $1,000 per year per child. The family with twins would be asked to pay $2,000 per year for five years. The other family would pay $1,000 per year over a 10-year period. In contrast, if the expected contribution were $1,000 per year regardless of the number of children in the system, the family with twins would pay $1,000 per year for five years, while the other family would have to pay $1,000 per year for 10 years—twice as much as the first family.

To reduce these potential inequities, the ECE Methodology, like the IM, expects families with multiple children in early care and education to pay more than those with just one child in the system. However, in recognition of very real constraints on ability to pay, the adjustment is modest. The ECE Methodology adopts the IM contribution rates for multiple children in college and converts them for children enrolled in early care and education. The adjustment is based on the number of children in the family to be enrolled at least half-time, on average, during the year for which assistance is requested:

Number in ECE	Adjusted contribution
Two:	60% of contribution per child x 2 = 120% of the one child amount
Three:	45% of contribution per child x 3 = 135% of the one child amount
Four:	35% of contribution per child x 4 = 140% of the one child amount

If there are more than four children in early care and education, the contribution rate of 35% per child applies. Below is an example of how this would affect families at different contribution levels:

Expected Family Contribution	Number of Children in ECE			
	One	Two	Three	Four
Annual	**$ 1,200**	**$ 1,440**	**$ 1,620**	**$ 1,680**
Monthly	100	120	135	140
Additional per child/month		20	18	13
Annual	**$ 2,400**	**$ 2,880**	**$ 3,240**	**$ 3,360**
Monthly	200	240	270	280
Additional per child/month		40	35	27
Annual	**$ 4,800**	**$ 5,760**	**$ 6,480**	**$ 6,720**
Monthly	400	480	540	560
Additional per child/month		80	70	53
Annual	**$ 9,600**	**$ 11,520**	**$ 12,960**	**$ 13,440**
Monthly	800	960	1,080	1,120
Additional per child/month		160	140	107

Eligibility

Need analysis should be conducted on an annual basis. Family situations may change over the course of a year, but it is assumed, as it is in higher education financial aid, that these changes would be captured during the next application period. However, families with significant and substantial changes in their circumstances could apply for special consideration at any time. Changes that would warrant an interim adjustment include job loss, a long illness or disability, change in marital status or family size, and similar events that may severely reduce the income available to pay the family's share of early care and education expenses.

Professional judgment

The ECE Methodology cannot account for all of the circumstances affecting a particular family, but it can provide to the financial aid administrator the best available indicator of how each family's financial strength compares to that of other families applying for aid. Responsibility for the final determination of the family's share of early care and education expenses rests with the early care and education financial aid administrator, who can use professional judgment in reviewing information about any relevant special circumstances in relation to the family's income and assets.

In exercising professional judgment, aid administrators are expected to rely on principles of need analysis that were developed for use with the ECE Methodology. The *Principles of Need Analysis for Early Care and Education Financial Aid*[6] constitute the basic foundation for ethical financial aid practices and sound need analysis decisions. Some of the principles were adapted

[6] See Appendix A, *Principles of Need Analysis for Early Care and Education Financial Aid.*

from the College Board's set of need analysis principles for use with the IM; others are unique to early care and education.

Application form

In tandem with the development of the ECE Methodology, a financial aid application form was designed to collect the family data that would be needed to calculate an expected family contribution using the proposed methodology. The form also seeks information that would assist aid administrators in determining eligibility for various sources of aid.

As part of the *Learning Between Systems* project, a draft financial aid application form was tested in April 2000 with families in urban, suburban, and rural communities in five states. More than 100 parents completed applications and provided written feedback. Of these, 46 also participated in focus groups to provide additional feedback about the application form and the model of an early care and education financing system presented to them. Analyses of the completed applications and parent feedback were used, along with reviewer comments, to clarify and refine the form.

The final draft form reflects revisions to the ECE Methodology as it evolved over the course of the project.[7]

Periodic revision and updating

The ECE Methodology and financial aid application should be reviewed periodically and updated annually. The goal is for the ECE Methodology, if adopted, to evolve as a "consensus methodology" among its users—states, communities, and/or organizations. To this end, the review process would involve a representative group of early care and education financial aid administrators who are using the methodology and application with families. Economists and national financial aid experts would also provide guidance in this interactive process that examines the methodology from a variety of perspectives. Such a process would maintain the methodology's sound economic foundation while also judiciously incorporating changes that reflect experience gained through its use.

Annual updating of the underlying formulas of the ECE Methodology is needed to incorporate the most current economic data available, whether or not any substantive changes are made to the methodology itself during the periodic reviews. For example, the proposed methodology was developed using data that was available for the 2000-2001 academic year. If the methodology were to be tested and further refined, it would first need to be updated. Once adopted, updating would be accomplished on an annual schedule.

[7] See Appendix E, *Draft Financial Aid Application Form.*

Summary

The ECE Methodology draws on both the FM and the IM, relying on the strengths of each. In many cases, the ECE Methodology depends more heavily on IM due to the availability of background material that supports its formulas, providing a clear basis for adapting the method to the characteristics of families with young children.

The appendices provide additional background information regarding the ECE Methodology, including the principles of need analysis that guided its development, computation tables showing the proposed formulas, a description of data sources and calculations for 2000-2001, and a worksheet for applying the method to information to be supplied on an application form. The draft financial aid application, developed as a companion to the ECE Methodology, is also included.

The proposed Early Care and Education Need Analysis Methodology is a work in progress that has benefited from the thoughtful input of many individuals with diverse perspectives. We continue to welcome comments for its improvement.

We caution interested readers that prior to broad-scale adoption of the methodology, it should be carefully field-tested and then adjusted, as necessary, based on an analysis of the results. Please contact the authors with requests to test or use the method or for updates on its status.

About the authors

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APPENDIX A:

PRINCIPLES OF NEED ANALYSIS

Principles of Need Analysis for Early Care and Education Financial Aid

1. To the extent that early care and education services (ECE) are not an entitlement for young children and there are tuition and fees for participation in early care and education programs, parents have a responsibility to pay for services to the extent they are able.

2. In measuring each family's ability to pay for early care and education and school-age programs, the Early Care and Education Need Analysis Methodology (ECE Methodology) should be implemented in a fair and consistent manner.

3. Equitable need analysis relies on sound and accurate data. A standard application form is used to collect the data from families required for determining ability-to-pay using the ECE Methodology.

4. Measurement of ability to pay in the ECE Methodology is separate from, and not affected by, the measurement of resources available to meet the family's need.

5. The ECE Methodology evaluates the family's ability to pay based on its current financial circumstances, particularly family size, income, and assets.

6. Both income and assets contribute to the family's financial strength, and both affect the family's ability to pay for early care and education as measured in the ECE Methodology.

7. Financial aid is not counted as income if paid in the family's behalf directly to an early care and education program or provided to the family as a voucher or payment to pass on to a provider. In these cases, the assistance counts as a resource in meeting the family's need.

8. The ECE Methodology adjusts for differences affecting family living expenses, such as family composition. Adjustments for geographic differences in living expenses are incorporated in the need analysis methodology to the extent possible.

9. An equitable need analysis system expects families in similar circumstances to make similar contributions (the principle of horizontal equity). It also expects families in different circumstances to contribute appropriately different amounts (the principle of vertical equity).

10. In determining a family's financial need, the full, published price of the early care and education program selected by the family is to be considered.

11. Determination of a family's expected contribution and need for aid is made without discrimination on the basis of race, ethnic or cultural background, religion, creed, or sexual preference.

12. The information provided by financial aid applicants is treated with utmost confidentiality and dignity.

13. The financial aid administrator, guided by these principles, is empowered to use professional judgment in making the final assessment of the family's ability to pay for early care and education, taking into consideration any special circumstances of the family.

14. An appeals process should be available and clear to applicants.

Note: Many of the above principles were adapted from the College Board's *Principles of Need Analysis* (*CSS/Financial Aid Profile Users' Guide*, 2000).

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APPENDIX B:

COMPUTATION TABLES

Early Care and Education (ECE)
Need Analysis Methodology
2000-2001 Computation Tables

TABLE 1. ALLOWANCES FOR STATE & OTHER TAXES

State/Territory	Total Income						
	$0-30,000	30,001-40,000	40,001-50,000	50,001-60,000	60,001-70,000	70,001-80,000	80,001-or more
Alabama (AL)	9.0%	8.5%	8.0%	7.5%	7.0%	6.5%	6.5%
Alaska (AK)	4.5%	4.0%	3.5%	3.0%	2.5%	2.0%	2.0%
Arizona (AZ)	8.0%	7.5%	7.0%	7.0%	7.0%	6.5%	6.5%
Arkansas (AR)	9.0%	8.5%	8.0%	8.0%	8.0%	8.0%	8.0%
California (CA)	8.0%	8.0%	7.5%	7.5%	8.0%	8.0%	8.0%
Colorado (CO)	8.0%	8.0%	7.5%	7.5%	7.5%	7.5%	7.0%
Connecticut (CT)	10.0%	9.5%	9.0%	9.0%	9.5%	9.5%	9.5%
Delaware (DE)	6.0%	6.0%	6.0%	6.0%	6.5%	7.0%	7.0%
District of Columbia (DC)	8.5%	8.5%	9.0%	9.0%	9.0%	9.0%	9.0%
Florida (FL)	7.5%	7.0%	6.5%	6.0%	5.5%	5.0%	4.5%
Georgia (GA)	9.0%	8.5%	8.5%	8.5%	8.0%	8.0%	8.0%
Hawaii (HI)	9.0%	9.0%	9.0%	9.0%	8.5%	8.5%	8.5%
Idaho (ID)	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Illinois (IL)	10.0%	9.5%	9.0%	8.5%	8.0%	8.0%	7.5%
Indiana (IN)	9.5%	9.0%	8.5%	8.0%	7.5%	7.5%	7.5%
Iowa (IA)	10.0%	9.5%	9.0%	9.0%	9.0%	9.0%	9.0%
Kansas (KS)	9.0%	8.5%	8.5%	8.5%	8.5%	8.0%	8.0%
Kentucky (KY)	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Louisiana (LA)	9.0%	8.5%	8.0%	7.5%	7.0%	7.0%	6.5%
Maine (ME)	9.0%	9.0%	9.0%	9.5%	9.5%	9.5%	9.5%
Maryland (MD)	11.0%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Massachusetts (MA)	10.5%	10.0%	9.5%	9.5%	9.5%	9.5%	9.5%
Michigan (MI)	11.0%	10.5%	10.0%	9.5%	9.0%	9.0%	8.5%
Minnesota (MN)	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Mississippi (MS)	8.0%	8.0%	8.0%	8.0%	8.0%	7.5%	7.0%
Missouri (MO)	9.0%	9.0%	9.0%	8.5%	8.5%	8.5%	8.0%
Montana (MT)	6.0%	6.0%	6.0%	6.0%	6.5%	6.5%	6.5%
Nebraska (NE)	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Nevada (NV)	6.0%	5.5%	5.0%	4.5%	4.0%	3.5%	3.5%
New Hampshire (NH)	7.5%	7.0%	6.5%	6.0%	5.5%	5.5%	5.5%
New Jersey (NJ)	12.0%	11.5%	11.0%	10.5%	10.0%	9.5%	9.0%
New Mexico (NM)	9.0%	9.0%	8.5%	8.5%	8.0%	8.0%	8.0%
New York (NY)	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
North Carolina (NC)	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
North Dakota (ND)	7.5%	7.0%	6.5%	6.5%	6.5%	6.0%	6.0%
Ohio (OH)	9.5%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Oklahoma (OK)	8.5%	8.5%	8.5%	8.5%	8.0%	8.0%	8.0%
Oregon (OR)	9.5%	9.5%	9.5%	10.0%	10.0%	10.0%	10.0%
Pennsylvania (PA)	10.5%	10.0%	9.5%	9.0%	9.0%	8.5%	8.5%
Puerto Rico (PR)	4.5%	4.0%	3.5%	3.0%	2.5%	2.0%	2.0%
Rhode Island (RI)	10.5%	10.0%	9.5%	9.5%	9.5%	9.5%	9.5%
South Carolina (SC)	6.5%	6.5%	7.0%	7.5%	7.5%	7.5%	7.5%
South Dakota (SD)	7.5%	7.0%	6.5%	6.0%	5.5%	5.0%	5.0%
Tennessee (TN)	7.5%	7.0%	6.5%	6.0%	5.5%	5.0%	4.5%
Texas (TX)	7.5%	7.0%	6.5%	6.0%	5.5%	5.5%	5.0%
Utah (UT)	0.0%	10.0%	10.0%	9.5%	9.0%	9.0%	8.5%
Vermont (VT)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Virginia (VA)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Washington (WA)	10.0%	9.5%	9.0%	8.5%	8.0%	7.5%	7.0%
West Virginia (WV)	8.0%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Wisconsin (WI)	11.5%	11.5%	11.5%	11.5%	11.5%	11.0%	10.5%
Wyoming (WY)	5.5%	5.0%	4.5%	4.0%	4.0%	3.5%	3.0%

TABLE 2. ALLOWANCES AGAINST INCOME

FICA: *Wages*	
$1 to $72,600	7.65% of income eared by each wage earner (maximum $5,553.90 per person)
$72,601 or more	$5,553.90 + 1.45% of income earned above $72,600 by each wage earner
Employment Allowance	Two employed parents: 35% of lesser earned income to maximum $3,120. Single parent: 35% of earned income to maximum $3,120
Medical/Dental Expense Allowance	Unreimbursed expenses in excess of 4% of total income

TABLE 3. INCOME PROTECTION ALLOWANCE (IPA)

Family Size	*Allowance*
2	$ 16,160
3	$ 19,790
4	$ 22,850
5	$ 25,550
6	$ 27,990
7	$ 30,230
8	$ 32,320

TABLE 4. EDUCATION SAVINGS ALLOWANCES

Annual Savings Goal (ASG) =
1.8% of Total Income, to a maximum of $1,550

Annual Education Savings Allowance (AESA) =
ASG x number of pre-college children > 5

Cumulative Education Savings Allowance (CESA) =
[ASG x total ages of pre-college children > 5
- (number of pre-college children > age 5 x 5)] +
Number of children in college x ASG x 13 x .625

Early Care and Education (ECE)
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TABLE 5. CONTRIBUTION FROM DISCRECTIONARY INCOME

Available Income (AI)			*Total Contribution from Income*	
Up to $11,100			22%	of AI
$11,101 to $14,000 ....$2,442	+	25%	of AI over	$11,100
$14,001 to $16,800 ....$3,167	+	29%	of AI over	$14,000
$16,801 to $19,600 ....$3,979	+	34%	of AI over	$16,800
$19,601 to $22,500 ....$4,931	+	40%	of AI over	$19,600
$22,501 or more $6,091	+	47%	of AI over	$22,500

TABLE 6. ADJUSTED NET WORTH OF A BUSINESS OR FARM

New Worth (NW)	*Adjusted Net Worth*		
Less than $1......................$	0		
$ 1 to $ 90,000....$	0	+	40% of NW
$ 90,001 to $265,000....$	36,000	+	50% of NW over $ 90,000
$265,001 to $445,000....$	123,500	+	60% of NW over $265,000
$ 445,001 or more.............$	231,500	+	100% of NW over $445,000

TABLE 7. EMERGENCY RESERVE ALLOWANCE (ERA)

Family Size	*Allowance*
2 ....$	14,320
3 ....$	17,540
4 ....$	20,250
5 ....$	22,640
6 ....$	24,800
7 ....$	26,790
8 ....$	26,640

TABLE 8. ASSET ASSESSMENT RATE

Discretionary Net Worth X 10%

TABLE 9. NUMBER IN ECE ADJUSTMENT

*Number of Children in ECE**	*Adjustment Rate*	*EFC** Multiplier*
1	..........100% of EFC	1.00
2	............60% of EFC for each	1.20
3	............45% of EFC for each	1.35
4	............35% of EFC for each	1.40

* Number enrolled in an ECE (early care and education) program at least half-time.
** EFC = Expected Family Contribution

Note: Tables 1-4 and 7-9 are adapted from the Institutional Methodology of The College Board.
Tables 5 and 6 are adapted from the Federal Methodology of the U.S. Department of Education.

Revised 6/1/01

APPENDIX C:

DATA SOURCES AND CALCULATIONS

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INTRODUCTION

The purpose of this document is to describe the data sources, assumptions, and calculations used to develop the Early Care and Education Need Analysis Methodology (ECE Methodology).

We acknowledge the important work of the College Scholarship Service (CSS) of the College Board in its development and description of the Institutional Methodology (IM). This paper is based substantially on the CSS annual paper describing the methodology, *Derivation of the Institutional Methodology Tables*. The CSS paper includes the following background information about the IM.

> *Beginning in 1967, Bureau of Labor Statistics (BLS) data was used to update the various allowances used in the need analysis methodologies. Prior to the 1992 reauthorization, the CSS Committee on Standards of Ability to Pay (CSAP) determined that Consumer Expenditure Survey (CES) data would provide a more meaningful basis for updating the need analysis allowances, since the BLS data represent the cost of purchasing a specified set of goods and services in 1967. Because the CES data are based upon contemporary spending patterns, their use would reduce the "face validity" criticism frequently directed at the Income Protection Allowance (previously called the Standard Maintenance Allowance). The CES data reflect actual family spending patterns, and can be updated annually, in contrast to the static and prescriptive nature of the BLS data. Although the College Board proposed during the 1992 reauthorization that the Congress adopt this method of updating federal need analysis tables, this proposal was not accepted. The Federal Methodology continues to use the BLS-based allowances.*
>
> *"CSAP believes that the Institutional Methodology should be grounded in sound economic theory, and that the differences between the CES-based and BLS-derived allowances are likely to become more pronounced over time, simply because the BLS data becomes more and more outdated."*

The ECE Methodology has been adapted from the Federal Methodology as well as from the IM. However, it relies more extensively on the IM because its economic foundation lends itself to adaptation. Although the IM is a source of many of the formulas used, the ECE Methodology does not mirror the IM in every respect. For example, the data used to derive the ECE Methodology are based on the expenditures of families with young children while the IM uses expenditures for a family of four with parents ages 45-54. The various assumptions of the IM formulas were each examined to determine if they fit the circumstances of families with young children. When they did not, the calculations were revised to reflect the differences, where available data could be substituted.

The basic steps described in this paper provide a roadmap for updating the data reflected in the ECE Methodology's computation tables[1], which summarize the allowances and rates used in the methodology.

[1] See Appendix B of this report.

SOURCES AND ASSUMPTIONS

The basic economic foundation of the Early Care and Education Need Analysis Methodology relies on available data and a set of assumptions used to develop the allowances and formulas. These are summarized below, and in greater detail in the descriptions of each allowance.

1. The allowances are derived using an average of Consumer Expenditure Survey (CES) data from the most recent three years of available data. Use of three years of data is intended to avoid wide swings in the allowance values resulting from significant changes in expenditure patterns in any single year. In addition, each year's CES data are updated using the Consumer Price Index (CPI) to reflect current year dollars before calculating the average.
2. Since the CES data for families with young children reveal an average family size of four, most allowances in the ECE Methodology are calculated as expenditures for a family of four. This figure is then adjusted, using a family size equivalence scale, to reflect expenditures for different family sizes in deriving the allowances.
3. The allowances against income recognize a specific living standard level. These living standards are associated with the amount of discretion a family has over how much they may save or spend out of their income for early care and education or postsecondary education.

   Updated standards based on the CES data were set from a study done in 1978, when the BLS contracted with the Institute for Research on Poverty at the University of Wisconsin for a review of the Family Budget Revisions. The work was directed by Harold W. Watts of Columbia University. The Watts Committee argued that instead of prescribing the appropriate goods and services needed to attain a particular living standard, standards should be based on observed patterns.

   The committee recommended four budget levels: the Social Minimum Standard, the Lower Living Standard, the Prevailing Living Standard, and the Social Abundance Standard. The Prevailing Living standard is designed to reflect the level of living achieved by the typical family. The other standards are fixed relative to this level:

Social Minimum Standard	.50 median
Lower Living Standard	.67 median
Prevailing Family Standard	median
Social Abundance Standard	1.5 median

   The Lower Living Standard is used as the basis for calculating the Income Protection Allowance (IPA). This standard is essentially analogous to the lower-budget level used in Federal Methodology for the IPA. The Watts Committee judged that below this level, the family must apply "frugal and careful management, leaving little room for choice in achieving what Americans regard as an acceptable living standard." It is precisely this issue of "room for choice" that led CSS to select this standard for the IPA and employment allowance. Only when there is a possibility for making choices can families begin to contribute to postsecondary education costs. We believe the same is true of families' ability to pay for early care and education.

   Families living at the Lower Living Standard probably cannot afford to contribute anything to their children's early care and education expenses. Therefore, their income is completely protected under the IPA. On the other hand, the average family living at the Prevailing Living Standard can be expected to provide some level of contribution toward these expenses.

4. To establish the Lower Living Standard, it is necessary first to derive the median expenditures from the CES data. The Bureau of Labor Statistics (BLS) publishes tables for the CES every year that report mean expenditures for families of various types, but it does not publish median expenditures. However, medians can be calculated from the raw data provided by BLS in quarterly files. The ECE Methodology follows the lead of the College Board in the method it has adopted for determining a mean-to-median adjustment factor for the IM, but substitutes data for families with young children.

   To identify an appropriate adjustment factor for the initial 2000-2001 ECE Methodology, raw CES data was analyzed for the second, third, and fourth quarters of 1998, and for the first quarter of 1999.[1] Comparing the sum of mean expenditures for the four quarters to the sum of median expenditures for the four quarters provides the required information on the relationship between mean annual expenditures and median annual expenditures for each of the family types examined.[2]

Types of Families with Young Children	**Mean Income**	**Median Income**	**Median as % of Mean**
All families with children < 6	$ 36,452	$ 28,477	**78.1%**
Families with oldest child < 6	$ 40,871	$ 33,673	**82.4%**
Families with oldest child 6-17	$ 46,924	$ 38,504	**82.1%**
Families with oldest child 6-11 & at least one child < 6	$ 39,082	$ 32,004	**81.9%**
Average			81.1%
Rounded			**80.0%**

---

[1] Baum, Sandy. 2001, January. *Mean to Median Adjustment*. Unpublished analysis.

[2] While it is probably not necessary to perform this calculation every year, the relationship between the mean and the median may change over time. To account for this, the adjustment factor should be recalculated every 3 to 5 years. Monitoring the relationship between mean and median expenditures for a few years will allow a reliable decision about how often updating will be necessary. For additional background information about the mean-to-median calculations, please contact the authors.

ADJUSTING THE CONSUMER EXPENDITURE SURVEY DATA

Weighting the Averages

The computation for obtaining percentages to weight the Consumer Expenditure Survey (CES) averages in constructing the allowances for the 2000-2001 ECE Methodology is as follows:

Consumer Expenditure Survey[1]	**1996**	**1997**	**1998**
Number of consumer units			
Families, oldest child < 6[2]	5,542	5,431	5,471
Families, oldest child 6-17[3]	14,390	15,360	15,994
Total	19,932	20,791	21,465
Percent of consumer units			
Families, oldest child < 6	27.8%	26.1%	25.5%
Families, oldest child 6-17	72.2%	73.9%	74.5%
Total	100.0%	100.0%	100.0%

Computing the Weighted Average Family Size

Average family size	**1996**	**1997**	**1998**
Families, oldest child < 6	3.5	3.5	3.4
Percent of consumer units	27.8%	26.1%	25.5%
Weighted family size	0.97	0.91	0.87
Families, oldest child 6-17	4.00	4.00	4.00
Percent of consumer units	72.2%	73.9%	74.5%
Weighted family size	2.89	2.96	2.98
Weighted Average Family Size	**3.86**	**3.87**	**3.85**
3-year weighted average			**3.86**
Rounded			**4.00**

[1] The CES data can be obtained at the website of the Bureau of Labor Statistics: http://stats.bls.gov/csxhome.htm
[2] Husband and wife with children, oldest child < 6
[3] Husband and wife with children, oldest child 6-17

CONSUMER PRICE INDEX ADJUSTMENT

The Consumer Price Index (CPI) is used to update the Consumer Expenditure Survey data to current year dollars.

Average CPI-U[1]		Difference	Percent Change	Multiplier	
1996	156.9				
1997	160.5	3.6	0.023	1.023	
1998	163.0	2.5	0.016	1.016	
1999	166.6	3.6	0.022	1.022	
2000	170.6	4.0	0.024	1.024	*(estimate[2])*

Adjust to 2000 dollars:

1996	156.9			
2000	170.6	13.7	0.087	1.087
1997	160.5			
2000	170.6	10.1	0.063	1.063
1998	163.0			
2000	170.6	7.6	0.047	1.047

[1] Bureau of Labor Statistics (BLS), *Consumer Price Index, All Urban Consumers - (CPI-U).* Available online: ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt

[2] Note: Because the formulas for the ECE Methodology were constructed in early 2000, we relied on an estimate for the 2000 CPI provided in *Business Week Economic Forecast Survey for 2000*, 12/27/99, Page 85. The estimate is retained, rather than replaced with the actual CPI, to reflect the data availability for the 2000-2001 ECE Methodology at the time it was constructed. Annual updates of the methodology's formulas would likely take place at a similar time each year and would also need to rely on an estimate of the CPI to update the CES data to current year dollars.

FAMILY SIZE EQUIVALENCE SCALE

An equivalence scale proposed by economist Patricia Ruggles[1] is used to estimate allowances for families of different sizes. For family sizes not shown below, calculate the multiplier following the steps below:

Family size	Power of .5	Relative to Family of 4
2	1.41	**0.71**
3	1.73	**0.87**
4	2.00	**1.00**
5	2.24	**1.12**
6	2.45	**1.22**
7	2.65	**1.32**
8	2.83	**1.41**

Family Size Adjustment

To convert CES data to a family size of four, use the equivalence scale to derive a conversion factor:

Families	CES Data	CES Average Family Size	Power of .5	Relative to Family of 4	Conversion Factor
Oldest child < 6:	1996-97	3.5	1.87	0.94	1.069
Oldest child < 6:	1998	3.4	1.84	0.92	1.085
Oldest child 6-17:	1996-98	4.0	2.00	1.00	

[1] Ruggles, Patricia. (1990). *Drawing the Line: Alternate Poverty Measures and Their Implications for Public Policy.* Washington, DC: The Urban Institute Press.

INCOME PROTECTION ALLOWANCE

The Income Protection Allowance (IPA) is the major allowance against income in the ECE Methodology. Its purpose is to protect family income for basic living expenses so that the family's contribution for early care and education does not compromise the family's ability to purchase basic goods and services needed to live at the Lower Living Standard.

The steps for constructing the IPA are as follows:

1. Starting with Consumer Expenditure Survey (CES) data for families with children ages 0-12[1] for the most recent three years, subtract taxes that will be calculated separately in subsequent steps of the ECE Methodology: sales taxes, property taxes, and FICA.
   a. Sales taxes: Approximately 80% of the total expenditures are taxed, on average, at the rate of 5%.[2] This yields an average sales tax rate of 4% [.8 X .05 = .04]. Since sales taxes are computed as part of the tax allowance, 4% of CES expenditures are subtracted to avoid double-counting this tax.
   b. Property taxes: The CES line item for property tax is subtracted because property tax is included in the "Allowance for State and Other Taxes."
   c. FICA: The CES line items for Social Security and Medicare payments are combined to produce the total FICA amount. Because the ECE Methodology computes the FICA allowance for each family based on their actual earnings, the CES amount is subtracted from expenditures.[3]
2. Subtract early care and education/child care expenses because rather than protecting this amount, the purpose of the ECE Methodology is to determine the amount that can be paid for ECE after all other essential expenditures are made. These expenditures are tracked in the personal services category of the CES as day care, nursery, preschool, babysitting, etc.
3. Adjust the net expenditures with the Consumer Price Index for the current year.
4. Adjust the expenditure amount for each year from the average CES family size for the year to reflect expenditures of a family of four, using a conversion factor computed with the equivalence scale.
5. Apply the percentages of the two family types to derive a weighted average of expenditures.
6. Compute a three-year average for all three years of adjusted expenditure amounts.
7. Convert the mean to a median. (Mean x .80)
8. Adjust the median to the lower living standard. (Median x .67)
9. Use the family size equivalence scale to adjust from a family of four to other family sizes.

The steps and calculations for the 2000-2001 ECE Methodology are shown below.

[1] The amount is an average of two family types likely to have children ages 0-12: "Husband and wife with children, oldest child under age 6" and "Husband and wife with children, oldest child 6-17." Data for both family types are used because younger children are present in both. In addition, the ECE Methodology is expected to be used with families seeking financial aid for children ages 6-12, as well as for children ages 0-5. CES data for single parents does not provide adequate information about the ages of the children to be useful. Further, because income and expenditures of single parent families are dramatically less, this would skew the averages to the disadvantage of all families.

[2] U.S. Statistical Abstract

[3] CES Table 1500, a total of the line items "Deductions for Social Security" and "Medicare payments"

Calculation of the Income Protection Allowance (IPA)

	Families w/oldest child < 6[1]			Families w/oldest child 6-17[2]		
	1996	**1997**	**1998**	**1996**	**1997**	**1998**
CES mean expenditures	**$43,616**	**$45,723**	**$43,601**	**$46,476**	**$47,124**	**$48,829**
Subtract taxes:						
Sales tax	1,745	1,829	1,744	1,859	1,885	1,953
Property taxes	1,250	1,225	1,100	1,304	1,389	1,424
FICA	3,139	3,346	3,219	3,064	3,345	3,378
Expenditures less taxes	**$37,482**	**$39,323**	**$37,538**	**$40,249**	**$40,505**	**$42,073**
Subtract ECE; child care	1,810	1,804	1,519	601	615	586
Net Expenditures *(less taxes & ECE/child care)*	**35,672**	**37,519**	**36,019**	**39,648**	**39,891**	**41,487**
Adjust for CPI	1.087	1.063	1.047	1.087	1.063	1.047
2000-mean	**38,776**	**39,883**	**37,712**	**43,097**	**42,404**	**43,437**
Average family size	3.5	3.5	3.4	4.0	4.0	4.0
Conversion factor	1.069	1.069	1.085	1.00	1.00	1.00
Family of 4	**$41,451**	**$42,635**	**$40,917**	**$43,097**	**$42,404**	**$43,437**
% of Families, oldest child 0-17[3]	27.8%	26.1%	25.5%	72.2%	73.9%	74.5%

Families, oldest child 0-17	**1996**	**1997**	**1998**	
Weighted Average	**$42,640**	**$42,464**	**$ 42,795**	
3-year weighted average (mean)				**$ 42,633**
Adjust to median (.80 x mean)				**$ 34,106**
Adjust to Lower Living Standard: IPA for Family of Four				**$ 22,851**

Compute the IPA for different family sizes:

Family Size	Equivalency Scale	IPA
2	0.71	$ 16,158
3	0.87	$ 19,790
4	**1.00**	**$ 22,851**
5	1.12	$ 25,548
6	1.22	$ 27,987
7	1.32	$ 30,229
8	1.41	$ 32,317

Round the IPA to the nearest $10:

Family Size	*Income Protection Allowance*
2	*$ 16,160*
3	*$ 19,790*
4	*$ 22,850*
5	*$ 25,550*
6	*$ 27,990*
7	*$ 30,230*
8	*$ 32,320*

[1] Husband and wife with children, oldest child < 6
[2] Husband and wife with children, oldest child 6-17
[3] Husband and wife with children, oldest child < 6 *and* Husband and wife with children, oldest child 6-17

MEDICAL/DENTAL EXPENSE ALLOWANCE

The purpose of the medical/dental allowance is to recognize unusually high medical and dental expenses that exceed the average such expenses already taken into account as part of the IPA. The medical/dental expenses of the average family of four serves as the benchmark, expressed in terms of a percent of income that reflects what the average family spends on medical expenses, based on CES data for a family of four. Expenses not reimbursed by insurance that are in excess of this percentage are considered unusually high and therefore, reduce the family's available income.

The following represents the portion of total income that families spent on medical/dental expenses according to the three most recent CES surveys available for 2000-2001:

Families w/oldest child < 6	**1996**	**1997**	**1998**	
Income	$ 53,847	$ 57,063	$ 55,800	
Health care expenses	$ 2,001	$ 1,684	$ 1,685	
Average family size	3.5	3.5	3.4	
Conversion factor	1.069	1.069	1.085	
Health care for family of 4	$ 2,139	$ 1,800	$ 1,828	
Health care as % of income	3.97%	3.15%	3.28%	
% of total families	27.80%	26.12%	25.49%	
Families w/oldest child 6-17	**1996**	**1997**	**1998**	
Income	$ 53,637	$ 56,673	$ 58,775	
Health care expenses	$ 2,122	$ 2,019	$ 2,110	
Health care as % of income	3.96%	3.56%	3.59%	
% of total families	72.20%	73.88%	74.51%	
Weighted Average				
Health Care as % of Total Income	4.0%	3.5%	3.5%	3.64%
Rounded to the nearest whole number				**4.00%**

ANNUAL EDUCATION SAVINGS ALLOWANCE

The Annual Education Savings Allowance (AESA) is based on the following assumptions:

1. The basis for computing the allowance is the average expenses for a student to attend a residential four-year college or university. This is an enrollment-weighted average cost for public and private institutions, and includes tuition, fees, room, board, books, and personal expenses, as reported in the College Board's most recent *Annual Survey of Colleges*. For 1999-2000, the College Board calculated the one-year enrollment-weighted average attendance expenses at $15,074.

2. The total savings goal for each family is approximately one-third of the four-year parent contribution. It is assumed that the remaining two-thirds of college expenses will be paid from current income and from parent borrowing.

3. For the purpose of deriving the AESA, it is assumed that a family will accumulate its educational savings for each child over the 13-year period from age six to college enrollment at age 18. The savings allowance begins at age six, rather than from birth, in recognition that early care and education expenses take priority over saving for college in the years before a child starts school.

4. It is assumed that future increases in college costs will be offset by the compounding effect of investment earnings over the 13-year savings period.

The worksheet below shows the derivation of the annual savings goal for each child. The terms in the worksheet are defined below.

Summary of AESA Computation Steps	
1. **Average Annual Postsecondary Expense Budget** (Public& private four-year colleges/universities)	$ 15,074
2. **Four-Year Total Attendance Expenses** (annual expense x 4)	$ 60,296
3. **Maximum Total Savings Goal** (1/3 of total cost)	$ 20,099
4. **Maximum Annual Savings Goal** (1/13 of Total Savings Goal, rounded to nearest $10)	**$ 1,550**
5. **Income Level for a Family of Four Able to Pay Full Expenses Without Aid** *("no–need income level")*	$ 86,000
6. **Annual Savings Goal as % of "no need" income**	**1.8%**

<u>Definitions</u>

1. Average Annual Postsecondary Expense Budget
   The average enrollment-weighted expenses at four-year public and private universities for one year, including tuition, fees, books, room, board, and personal expenses.

2. Four-Year Total Expenses
   The total attendance expenses at a four-year undergraduate program, using average enrollment-weighted expenses (4 x line 1).

3. Maximum Total Savings Goal
   The maximum savings required to pay one-third of the four-year expenses (1/3 x line 2).

4. Maximum Annual Savings Goal
   This goal is based on the assumption that a family will save annually for 13 years before the student enrolls in college (1/13 x line 3).

5. Income Level for a Family of Four Able to Pay Full Expenses Without Aid —"No Need"
   Based on College Board data, this is the gross income at which a family would have an expected contribution equal to the average expense budget (line 1). The family contribution is based on a family of four with two parents and no contribution from assets.

6. Annual Savings Goal as Percentage of "No Need" Income
   The Annual Savings Goal (line 4) is expressed as a percent of the gross income of the lowest income family that would not qualify for financial aid (line 5). This percentage is used to determine the Annual Savings Goal for families with incomes below the amount shown in line 5.

EMPLOYMENT EXPENSE ALLOWANCE

The Employment Expense Allowance equals the difference between median expenditures for two-earner and one-earner families for food away from home, clothing, transportation, and personal household services. Based on the last three years' available CES data, the Employment Expense Allowance for the 2000-2001 ECE Methodology is computed as follows:

Step 1. Compute three-year average expenditures

1996	*1 wage earner*	*2 wage earner*	*Difference*	
Food away from home	$1,605	$2,320	$715	
Personal household services	272	512	240	
Apparel	1,881	2,248	367	
Transportation	6,208	8,618	2,410	
Total	$9,966	$13,698	$3,732	
Adjust to 2000 dollars with CPI			1.087	**$4,057**
1997				
Food away from home	$1,706	$2,497	$791	
Personal household services	299	503	204	
Apparel	1,816	2,169	353	
Transportation	6,260	8,650	2,390	
Total	$10,081	$13,819	$3,738	
Adjust to 2000 dollars with CPI			1.063	**$3,973**
1998				
Food away from home	$1,897	$2,580	$683	
Personal household services	286	496	210	
Apparel	1,799	2,082	283	
Transportation	6,375	8,720	2,345	
Total	$10,357	$13,878	$3,521	
Adjust to 2000 dollars with CPI			1.047	**$3,686**
Three year average (mean):				**$3,906**
Step 2: Adjust to obtain the median (mean x .80)				**$3,124**
Maximum Employment Allowance (rounded to nearest $10)				**$3,120**

Step 3. Calculate the allowance rate

Prevailing minimum wage	$5.15		
Hours per week	35		
Weeks per year	50		
Earnings for full-time employment at minimum wage[1]		$ 9,013	
Allowance maximum divided by minimum wage earnings		34.62%	
Employment Expense Allowance Rate *(rounded)*			**35%**

[1] It is common for minimum wage employees to have holidays and vacation time of approximately 2 weeks. Since these employees are usually paid only for time worked, a person's full-time earning potential is expected for only 50 weeks per year.

EMERGENCY RESERVE ALLOWANCE

The Emergency Reserve Allowance (ERA) represents median expenditures, based on the Consumer Expenditure Survey (CES). Six months of expenditures are assumed to be an appropriate allowance for emergencies based on generally accepted rules of financial planning.

Family Size	*Emergency Reserve Allowance*
2	**$13,420**
3	**$16,440**
4	**$18,980**
5	**$21,220**
6	**$23,250**
7	**$25,110**
8	**$26,850**

Families with oldest child <6	**1996**	**1997**	**1998**	
CES mean expenditures	$43,616	$45,723	$43,601	
Adjust for CPI	1.087	1.063	1.047	
2000 mean expenditures	$47,411	$48,604	$45,650	
Family size	3.5	3.5	3.4	
Conversion factor	1.069	1.069	1.085	
2000 mean for Family of 4	$50,682	$51,957	$49,531	
% of Total Families	27.8%	26.1%	25.5%	
Families with oldest child 6-17	**1996**	**1997**	**1998**	
CES mean expenditures	$46,476	$47,124	$48,829	
Adjust for CPI	1.087	1.063	1.047	
2000 mean expenditures	$50,519	$50,093	$51,124	
% of Total Families	72.2%	73.9%	74.5%	
Weighted Average	$50,565	$50,580	$50,718	
3-year weighted average (mean)				$ 50,621
Adjust to median (mean x .80)				$ 40,497
Adjust to six months				**$ 20,248**

Adjust for family size

Equivalence Scale	Family Size	Allowance	**Round to nearest $10**
0.71	2	14,318	$ 14,320
0.87	3	17,536	$ 17,540
1.00	**4**	**20,248**	$ 20,250
1.12	5	22,638	$ 22,640
1.22	6	24,799	$ 24,800
1.32	7	26,786	$ 26,790
1.41	8	28,635	$ 28,640

CUMULATIVE EDUCATION SAVINGS ALLOWANCE

The Cumulative Education Savings Allowance (CESA) is based on the amount of the Annual Education Savings Allowance (AESA). The CESA for each child is added to derive the family's total CESA. The CESA protects the savings families have accumulated for college up to the maximum allowance.

- The CESA is calculated by adding the **annual** savings goal (ASG) for each pre-college age child ages 6-18. The CESA for each child is thus calculated:

  ASG x (Child's age –5)

  Alternatively, the CESA can be calculated by multiplying the annual savings goal by the cumulative ages of the children ages 6-18 less 5 years for each of the children:

  ASG x total ages of children ages 6-18 – (5 x number children ages 6-18)

> *Example:* For a family with one 8-year-old child and an annual savings goal of $900 (1.8% of the family's $50,000 AGI), the CESA for that child would be $2,700 [$900 x (8-5)]. If there were two children older than five years of age, one 8 and one 12, the CESA for both children would be $9,000: $900 x [(8-5) + (12-5)] OR $900 x (20 - 10)

- For any siblings enrolled in college, the allowance against assets protects savings accumulated over 13 years (18 years – 5 years). To calculate the allowance, multiply the parents' annual savings goal by 13, and then multiply the result by .625. This multiplier represents the average amount to be protected at the beginning of each year of college, in order to distribute the savings over four years of college:

College Attendance	% Savings Protected
Year 1	1.00
Year 2	.75
Year 3	.50
Year 4	.25
Average	**.625**

> *Example:* For a family with an annual savings goal of $1,550 (the maximum), the CESA for the college student would be $12,594 ($1,550 x 13 = $20,150 x .625=$12,594).

- The CESA for pre-college age children is added to the CESA for any college-age siblings to derive the total CESA for the family.

EFC ADJUSTMENT RATES

The computed *expected family contribution* (EFC) is adjusted when a family has more than one child enrolled in early care and education (ECE) at least half-time. To compute the EFC for each child, use the adjustment rate below; to compute the total adjusted expected contribution from the family, use the EFC multiplier.

Number of Children in ECE	Adjustment Rate	EFC Multiplier
1	100% of EFC	1.00
2	60% of EFC for each child	1.20
3	45% of EFC for each child	1.35
4	35% of EFC for each child	1.40
5 or more	35% of EFC for each child	

Source: Institutional Methodology of the College Board

APPENDIX D:

METHODOLOGY WORKSHEET

Early Care and Education Methodology Worksheet (2000-2001)

			Annual Amount
INCOME OF PARENT(S)			
1.	AGI/Taxable income (item 19, or the sum of items 20a-e minus f, whichever is greater)*		$
1a.	Add back losses from business, farm, etc. and capital losses (item 20d or 20e, if negative)		+
2.	Untaxed Income & Benefits (sum of items 24 a-j)		+
3.	Income Adjustments [child support paid (item 28)]		-
4.	**Total parents' income (sum of lines 1, 1a, 2, minus 3)**		=
ALLOWANCES			
5.	U.S. Income Tax (item 21, or computed, if blank)		
6.	State and Other Taxes (% from Table 1 times line 4)*		+
7.	F.I.C.A. (Table 2)		+
8.	Medical/Dental Expense Allowance (item 30 amount above 4% of line 4)		+
9.	Parents' Annual Educational Loan repayment amount (item 29)		+
10.	Employment Expense Allowance (Table 2)		+
11.	Annual Education Savings Allowance (AESA) (Table 4)		
	a. Annual Savings Goal per person (1.8% x Total Income, up to maximum of $1,550)	=	
	b. Number of pre-college children > age 5, listed in item 16)	X	
	c. Total AESA		=
12.	Income Protection Allowance (Table 3)		
13.	Total Allowances (sum of lines 5 - 12)		=
14.	Discretionary income (line 4 minus line 13)		=
15.	**Total Family Contribution from Income (calculate using line 14 and Table 5 – may not be negative)**		=
ASSETS			
16.	Cash and checking accounts (item 37a)		
17.	Savings accounts (item 37b)		+
18.	Assets in children's names (item 38)		+
19.	Home equity		
	a. Home value cap (Line 4 times 3)	=	
	b. Revised home value (lesser of line 19a or the home value reported in item 39c)	=	
	c. Revised home equity (line 19b minus home debt reported in item 39c)		+
20.	Adjusted business/farm equity (items 40 and 41 (value minus debt) and Table 6)		+
21.	Investment equity (item 42, value minus debt)		+
22.	Other real estate equity (item 43, value minus debt)		+
23.	Net Worth (sum of lines 16 - 22)		=
24.	Asset Protection Allowances:		
	a. Emergency Reserve Allowance (Table 7)	=	
	b. Cumulative Education Savings Allowance (CESA) (Table 4)	=	
	c. Low Income Asset Allowance (amount from line 14, if negative)	=	
	d. Total Asset Allowances (sum of a + b + c)		-
25.	Discretionary Net Worth (line 23 minus line 24d – may not be negative)		=
26.	**Total Family Contribution from Assets (multiply line 25 x 10%)**		=
CONTRIBUTION			
27.	Total contribution for one child (sum of line 15 and line 26)		=
28.	Adustment for number of children in ECE		
	a. Number of children for whom financial aid is sought (items 1-3)	=	
	b. Number in ECE Adjustment (line 28a and Table 9)		X
29.	**TOTAL EXPECTED FAMILY CONTRIBUTION PER CHILD (line 27 x line 28b)**		
30.	**TOTAL ANNUAL EXPECTED FAMILY CONTRIBUTION FOR ALL CHILDREN (line 28a x line 29)**		=

* "Item" refers to questions in the ECE Application for Financial Aid. "Table" Refers to tables in the ECE Methodology Computation Tables

** : Families that report receiving TANF or Food Stamps will automatically have a $.00 Family Contribution.

Revised 6/1/01

APPENDIX E:

- DRAFT FINANCIAL AID APPLICATION FORM
- DRAFT APPLICATION INSTRUCTIONS

Early Care and Education
& Out-of-School Time
Application for Financial Aid*

DRAFT
2000-2001

SECTION A - CHILDREN NEEDING FINANCIAL AID

Child 1

START WITH YOUR OLDEST CHILD:

1. a. Child's full name ______ First Name ______ Middle Name ______ Last Name

b. Birth date(MM/DD/YY) ______ c. Sex: ☐ Male ☐ Female d. Ethnicity** ______ e. Special needs? ☐ Yes (explain in Section I)

f. List the start and end dates and times you wish this child to be in early education/child care (such as 6/00-6/01 and 8am–5pm): Start date ______ End date ______

Mon ___–___ Tues ___–___ Wed ___–___ Thurs ___–___ Fri ___–___ Sat ___–___ Sun ___–___

If child is in grades K-6, list additional dates and times needed: ______

g. Check the reasons the dates and times above are needed (check all that apply):

☐ Parent(s) employed ☐ Parent(s) in job training ☐ Parent(s) in school ☐ Child's development/education ☐ Other (explain in Section I)

h. Do you receive financial assistance for this child's education/care? ☐ Yes ☐ No If yes, what monthly amount? $______.00

i. If yes, who provides it? ☐ Employer ☐ Other: ______

j. Does child live with you full-time? ☐ Yes ☐ No If no, please explain in Section I.

Child 2

2. a. Child's full name ______ First Name ______ Middle Name ______ Last Name

b. Birth date(MM/DD/YY) ______ c. Sex: ☐ Male ☐ Female d. Ethnicity** ______ e. Special needs? ☐ Yes (explain in Section I)

f. List the start and end dates and times you wish this child to be in early education/child care (such as 6/00-6/01 and 8am–5pm): Start date ______ End date ______

Mon ___–___ Tues ___–___ Wed ___–___ Thurs ___–___ Fri ___–___ Sat ___–___ Sun ___–___

If child is in grades K-6, list additional dates and times needed: ______

g. Check the reasons the dates and times above are needed (check all that apply):

☐ Parent(s) employed ☐ Parent(s) in job training ☐ Parent(s) in school ☐ Child's development/education ☐ Other (explain in Section I)

h. Do you receive financial assistance for this child's education/care? ☐ Yes ☐ No If yes, what monthly amount? $______.00

i. If yes, who provides it? ☐ Employer ☐ Other: ______

j. Does child live with you full-time? ☐ Yes ☐ No If no, please explain in Section I.

Child 3

3. a. Child's full name ______ First Name ______ Middle Name ______ Last Name

b. Birth date(MM/DD/YY) ______ c. Sex: ☐ Male ☐ Female d. Ethnicity** ______ e. Special needs? ☐ Yes (explain in Section I)

f. List the start and end dates and times you wish this child to be in early education/child care (such as 6/00-6/01 and 8am–5pm): Start date ______ End date ______

Mon ___–___ Tues ___–___ Wed ___–___ Thurs ___–___ Fri ___–___ Sat ___–___ Sun ___–___

If child is in grades K-6, list additional dates and times needed: ______

g. Check the reasons the dates and times above are needed (check all that apply):

☐ Parent(s) employed ☐ Parent(s) in job training ☐ Parent(s) in school ☐ Child's development/education ☐ Other (explain in Section I)

h. Do you receive financial assistance for this child's education/care? ☐ Yes ☐ No If yes, what monthly amount? $______.00

i. If yes, who provides it? ☐ Employer ☐ Other: ______

j. Does child live with you full-time? ☐ Yes ☐ No If no, please explain in Section I.

☐ **Check here when you are applying for more children. Use a separate sheet to supply the information requested.**

Address

Address of Family Seeking Financial Aid

4. a. Home address ______ Apt. # ______

City ______ State ______ Zip ______

b. Mailing address (if different) ______

City ______ State ______ Zip ______

c. Home telephone ( ) ______ d. County of residence ______

** For Ethnicity Code, please use the following numbers:
1–Black/African American; 2–Asian; 3–Hispanic/Latino; 4–American Indian/Alaska Native; 5–Native Hawaiian; 6–Pacific Islander; 7–White/Caucasian; 8–Other
** Providing ethnicity information is optional. It is requested for statistical purposes.

*Note: Do not use this form to apply for financial aid for foster children. To apply for foster children, request the "foster child financial aid application form."

Revised 6/01/01

SECTION B – FAMILY INFORMATION

Custodial Parents

Parents, Stepparents, or Guardians (of children listed in Section A)

Parent 1

5. Check one box: ☐ biological or adoptive parent ☐ stepparent ☐ legal guardian ☐ other (explain in Section I)

6a. Name ______________________ (First / MI / Last)

b. Age______ Sex: ☐ Male ☐ Female Ethnicity: (see page 1)________

7. What is your current marital status? (Mark only one box)
☐ single ☐ married/remarried ☐ separated ☐ divorced ☐ widowed

8a. Occupation______________________

b. Employer______________________

c. Work phone (   )______________________

d. Work hours: ☐ full time ☐ part time ☐ other (explain in Section I)

9a. Highest level of education completed: (Mark only one box) ______
☐ Some high school ☐ High school diploma/GED ☐ Some college ☐ College degree:______

b. Are you currently attending school or a training program?
☐ No ☐ Yes: I am attending (Mark one box): ☐ Full-time ☐ Half-time ☐ Less than half-time
☐ I plan to attend in 2000-2001: (Mark one box): ☐ Full-time ☐ Half-time ☐ Less than half-time

Parent 2 (leave blank if only one parent lives in home)

10. Check one box: ☐ biological or adoptive parent ☐ stepparent ☐ legal guardian ☐ other (explain in Section I)

11a. Name ______________________ (First / MI / Last)

b. Age______ Sex: ☐ Male ☐ Female Ethnicity: (see page 1)________

12. What is your current marital status? (Mark only one box)
☐ single ☐ married/remarried ☐ separated ☐ divorced ☐ widowed

13a. Occupation______________________

b. Employer______________________

c. Work phone (   )______________________

d. Work hours: ☐ full time ☐ part time ☐ other (explain in Section I)

14a. Highest level of education completed: (Mark only one box) ______
☐ Some high school ☐ High school diploma/GED ☐ Some college ☐ College degree:______

b. Are you currently attending school or a training program?
☐ No ☐ Yes: I am attending (Mark one box): ☐ Full-time ☐ Half-time ☐ Less than half-time
☐ I plan to attend in 2000-2001: (Mark one box): ☐ Full-time ☐ Half-time ☐ Less than half-time

Family Members

Family Members in Household

Directions for completing this section: Count all family members in your home whom you will support in 2000. Provide information about each one below. This includes you (the parents listed above), the children listed in Section A, your other dependent children under age 19 who live in your home, and children ages 19-23 enrolled in college at least half-time. Include everyone else who lives with you whose income is less than $2,750 per year and whom you will continue to support in 2000-2001.

15. How many family members are in your household?______ List all of these in the grid below, including children listed in Section A, and all parents listed above. If there are more than six, list first those who will be in child care, school, or college at least half-time. List the others in Section I.

16. Family Member Listing

a. Full Name — Start with the children in Section A:	Relationship to Children listed in Section A (use code)	b. Age	c. Name of current child care program, school, or college (write "none" if not enrolled)	d. Current tuition and fees for child care or early ed program	(use code)	e. Amount paid by parents	(use code)	f. Plans for 2000-2001 (check the boxes that apply): Child care, early ed	Public school Pre-K-12	Private school Pre-K-12	College or training	Applied for aid?
1.	1			$		$						
2.				$		$						
3.				$		$						
4.				$		$						
5.				$		$						
6.				$		$						

Write in the correct code:

1=Child (listed in Section A)
2=Parent
3=Stepparent
4=Brother or sister
5=Stepbrother or stepsister
6=Grandparent
7=Other

Write in the correct code:

wk=weekly fees or amount paid
mo=monthly fees or amount paid
yr=annual fees or amount paid

SECTION C - GOVERNMENT ASSISTANCE

Assistance

17. Check the types of government assistance received by you or the child(ren) listed in Section A. If none, skip to Section D.

☐ Temporary Assistance to Need Families-TANF Case No. ____________

☐ Food Stamps Case No. ____________

If you checked any of the above boxes, please skip to the signature box on page 4 (Certification, Section J).

SECTION D - PARENTS' 1999 INCOME AND BENEFITS

Income and Benefits

18. The following 1999 U.S. income tax return figures are: ☐ estimated ☐ completed ☐ A tax return will not be filed (Skip to question 22.)

19. 1999 Total number of exemptions (IRS Form 1040 or 1040A, line 6d. For 1040 EZ or Telefile - see instructions) ________

20. 1999 Adjusted Gross Income (IRS Form 1040, line 33, 1040A, line 18, or 1040EZ, line 4, or Telefile, line L) 20. $ ________.00

Breakdown of income from line 20

- a. Wages, salaries, tips (IRS Form 1040 or 1040A, line 7, or 1040EZ, line 1) 20a. $ ________.00
- b. Interest income (IRS Form 1040 or 1040A, line 8a, or 1040EZ, line 2) 20b. $ ________.00
- c. Dividend income (IRS Form 1040 or 1040A, line 9) 20c. $ ________.00
- d. Net income (or loss) from business, farm, rents, royalties, partnerships, trusts, estates, etc. (IRS Form 1040, lines 12, 17, and 18) 20d. $ ________.00 If a loss, enter the amount in (parentheses).
- e. Other taxable income such as alimony received, unemployment compensation, capital gains (or losses), etc. (see instructions) 20e. $ ________.00
- f. Adjustments to income (IRS Form 1040, line 32 or 104A, line 17 - see instructions) 20 f. $ ________.00

21. 1999 Total U.S. income tax paid (IRS Form 1040, line 49 plus 51, 1040A, line 32, or 1040EZ, line 10, or Telefile, line K) 21. $ ________.00

22. 1999 Income earned from work by parent listed in question 6: 22. $ ________.00

23. 1999 Income earned from work by parent listed in question 11: 23. $ ________.00

24. 1999 Untaxed income and Benefits (Give total amount for the year. Do not give monthly amounts.)

- a. Social Security and SSI (Supplemental Security Income) benefits received (untaxed amounts only) 24a. $ ________.00
- b. Child support received for all children 24b. $ ________.00
- c. Deductible IRA and/or Keogh payments (see instructions) 24c. $ ________.00
- d. Payments to tax-deferred pension and savings plans (see instructions) 24d. $ ________.00
- e. Amounts withheld from wages for dependent care 24e. $ ________.00
- f. Amounts withheld from wages for medical spending accounts 24 f. $ ________.00
- g. Housing, food, and other living allowances received by military, clergy, and others (see instructions) 24g. $ ________.00
- h. Tax-exempt interest income (IRS Form 1040 or 1040A, line 8b) 24h. $ ________.00
- i. Cash or any money paid on your behalf (see instructions) 24 i. $ ________.00
- j. Other untaxed income and benefits (see instructions) 24 j. $ ________.00

25. a. 1999 U.S. Dependent Care Credit claimed for child care (IRS Form 1040, line 41 or 1040A, line 26) 25a. $ ________.00

b. 1999 State dependent care tax credit claimed for child care 25b. $ ________.00

26. Total financial aid or vouchers for early education or child care provided directly to providers of services on behalf of children listed in Section A or paid to you to pay the providers (see instructions; list sources and amounts in Section I) 26. $ ________.00

27. 1999 Earned Income Tax Credit claimed? ☐ Yes ☐ No

SECTION E - PARENTS' EXPENSES FOR 1999

Expenses

Annual Amount

28. Child support **paid** by the parent(s) listed in Section B for children not living in the household 28. $________.00

29. Repayment of parents' postsecondary education loans (see instructions; explain in Section I) 29. $________.00

30. Amount you paid for medical and dental insurance and for expenses not covered by insurance (see instructions) 30. $________.00

31. Unusual expenses (explain in Section I) 31. $________.00

SECTION F - PARENTS' 2000 EXPECTED INCOME AND BENEFITS

Income

If you expect your total 2000 income and benefits to differ from your total 1999 income and benefits, please explain in Section I.

Annual Amount

32. 2000 Gross income earned from work by parent listed in question 6 32. $________.00

33. 2000 Gross income earned from work by parent listed in question 11 33. $________.00

34. 2000 Other taxable income (income from all sources shown in 20b-e) 34. $________.00

35. 2000 Untaxed income and benefits (income from all sources of untaxed income shown in questions 24a-j) 35. $________.00

36. 2000 Total amount of financial assistance or vouchers for early education/child care (see instructions) 36. $________.00

Assets

SECTION G – PARENTS' ASSETS

37. a. Cash and checking accounts of parents $________.00

b. Savings accounts of parents $________.00

38. Total value of assets held in the names of your children in the household under age 18 $________.00

39. Home (Renters skip to 39d):

a. year purchased |_|_|_|_|

b. purchase price $________.00

c. What is your home worth today? $________.00

What is owed on it? $________.00

d. Monthly mortgage or rental payment $________.00
(If none, explain in Section I)

	What is it worth today?	What is owed on it?
40. Investments	$ ________.00	$ ________.00
41. Farm*	$ ________.00	$ ________.00
42. Business*	$ ________.00	$ ________.00
43. Other real estate	$ ________.00	$ ________.00

a. year purchased |_|_|_|_|

b. purchase price $________.00

* If parents own all or part of a business or farm, write its name and the percent of ownership in Section I.

Non-custodial Parent

SECTION H – NON-CUSTODIAL PARENT

Complete this section if the child(ren)'s parents are separated, divorced, or were never married.

44. a. Name ____________________

b. Home address ____________________

c. City ____________ State ____ Zip ________

d. Telephone (home) (   ) ____________________

e. Telephone (work) (   ) ____________________

f. Occupation ____________________

g. Employer ____________________

45. Name(s) of this parent's child(ren) listed in Section A:

____

46. Who last claimed the child(ren) as a tax exemption?

____________________ In which year?________

47. Relationship to custodial parent:

☐ Divorced ☐ Separated ☐ Never Married

48. a. Year of separation________ Year of divorce________

b. Is there a divorce decree? ☐ No ☐ Yes/Date: ________

49. How much does the noncustodial parent contribute or plan to contribute to early education/child care each month? $________.00

50. Is there an agreement specifying this contribution? ☐ Yes ☐ No
(If yes, explain in Section I.)

If children in Section A have different non-custodial parents, attach a separate sheet to supply the requested information about the other non-custodial parents.

Explanations

SECTION I – EXPLANATIONS/SPECIAL CIRCUMSTANCES

Use this space if you were requested to supply additional information or to explain your answers to any questions. Include the question number that you are answering. Also use this space to explain special circumstances. (See instructions.) If more space is needed, attach a separate sheet of paper.

Certification

SECTION J – CERTIFICATION

All of the information on this form is true and complete to the best of my (our) knowledge. If asked, I (we) agree to give proof of the information that I (we) have given on this form. I (We) realize that this proof may include copies of my (our) U.S., state or local income tax returns as well as other proof of income and benefits. I (We) certify that all information is correct at this time, and that I (we) will provide timely notice of any significant change in family income, assets, or financial situation.

Parent's signature ____________________ Date ____________

Parent's name (please print) ____________________

Parent's signature ____________________ Date ____________

Parent's name (please print) ____________________

This form must be signed by the parents, stepparents, or guardians listed in questions 6 and 11.

APPLICATION INSTRUCTIONS

Not sure how to answer a question? Read here for more information...

General Instructions: Answer each question on the application form based on your situation today. Later, if there are changes to your family size, marital status, employment, income, or other significant changes that may affect your ability to pay for early care and education or out-of-school-time expenses, report these directly to your financial aid office.

First, read the directions on the application. If you are still unsure how to answer, find the section and question number in these instructions to learn more. (Note: For some questions, there are no additional instructions.)

APPLICATION, PAGE 1

Section A — CHILDREN NEEDING FINANCIAL AID

If you are applying for more than one child, list the oldest child first, and other children in order of their age. If you are expecting the birth or adoption of another child in your family before June 30, 2001, write the date the birth or adoption is expected on page 4, Section I, then report the birth or adoption directly to your financial aid office.

1-3 d. Use the number from the ethnicity code at the bottom of the page that most closely matches the ethnicity of this child. If your child's ethnicity is not listed, use the code for "other." Answering this question is optional, but doing so will be helpful for evaluating the financial aid program.

1-3 e. If your child has been identified as having special needs, mark the "yes" box, and describe your child's condition on page 4, in Section I. Children with special needs may include those with a physical, developmental, behavioral, or emotional health condition that is outside the normal range, or those who have special risk factors that may limit development. Children who have been identified as having special needs may receive priority for financial assistance from some funding sources. *Note:* Be prepared to provide verification of your child's special needs from an authorized health professional.

1-3 f. Show the date you wish your child to start in early care and education or an out-of-school-time program. If your child is already attending, write today's date. Otherwise, write the date that you wish your child to start. If your child will no longer need the services after a certain date, write the end date. You may leave the end date blank if you want your child to continue for more than a year. Write the usual start and end times for each day that you now use or plan to use when your child starts in a program.

If there are two start and end times, such as with before- and after-school programs, write the first start and end time in the space provided, and the second start and end times directly below them. For school-age children who will need additional times during school vacations, write the dates and schedules needed in the space provided.

1-3 g. Check all the reasons that you wish this child to be in early care and education or out-of-school-time programs.

1-3 h, i. If you now receive financial assistance to pay for your child's early education or child care, write the monthly amount you receive and check the correct box to show if it is provided by your employer or another source. If the financial aid is not provided by your employer, write the name of the agency that provides the aid or write the type of aid you receive. Only include aid that is paid on your behalf to a provider or directly to you to pay the provider.

1-3 j. If your child does not live with you full-time, explain the situation on page 4, Section I.

APPLICATION, PAGE 2

Section B — FAMILY INFORMATION

Parents, Stepparents, or Guardians of children listed in Section A *(Custodial Parents)*

5-14. The adults who live with and are responsible for the child or children listed in Section A should provide the information requested in the application. These may be the child's biological or adoptive parent(s), a parent and a stepparent, legal guardians, or others.

- **If the child's parents are both alive and are married to each other or living together:** Provide information about both parents, regardless of whether they are married.
- **If the child's biological or adoptive parents are divorced, separated, or were never married, and are not now living together:** The parent with whom the child(ren) lived most in the past 12 months should provide information as "Parent 1." Provide information about the other parent on page 4, *Section H – Non-Custodial Parent.*
  If the child did no

t live with one parent more than the other in the past 12 months, the parent who provided the most financial support during that time should provide information as "Parent 1." (Support includes money, gifts, housing, food, clothes, child care, medical and dental care, etc.) If the parents provided equal amounts of support, the parent with the higher income should provide information as "Parent 1." Provide information about the other parent on page 4, *Section H – Non-Custodial Parent.*

- **If the child's parent is widowed or single.** The child's widowed or single parent provides information as "Parent 1." Leave "Parent 2" blank.
- **If the child has a stepparent:** If the child's parent has married or remarried, include information about his or her stepparent as "Parent 2." Whenever the word "parents" is used, it also means the child's stepparent.
- **If the child has a legal guardian.** Provide information about the child's legal guardian. A legal guardian is a person who is appointed by a court to be the child's legal guardian in a legal relationship that will continue after June 30, 2001, and who is directed by a court to support the child.
- **If the child's parent(s) are under the age of 19:** Information about the teen parent(s) of the child is needed (NOT about the grandparents of the child listed in Section A).
- **If the child's single parent lives with an unmarried "domestic" partner.** The unmarried partner of the child's parent is NOT required to provide information as "Parent 2." However, if he or she contributes to the support of the family, the amount of financial support should be reported in Section D of the application, in item 24j.
- **If the child does not live with one or both parents, a stepparent, or a legal guardian.** Check the "other" box in question 6 (and 11). Explain the relationship of the custodial adult to the child on page 4, Section I.

The adults who provide information as Parent 1 and Parent 2 in this section will be referred to as "Parents" throughout the application form.

6 & 11a. MI= Middle Initial

6 & 11b. Use the number from the ethnicity code that most closely matches your ethnicity. (See the ethnicity code at the bottom of page 1 of the application form.) If your ethnicity is not listed, use the code for "other." Answering this question is optional, but doing so will be helpful for evaluating the financial aid program.

8 & 13 a - c. If you have more than one occupation and employer, write the name of the occupation and company where you work the most hours. Write other occupations and employers' names on page 4, Section I.

8 & 13d. Check the box that best describes the amount of time you work.

9 & 14a. If you hold a college degree, write the abbreviation for the degree in the space provided, such as AA, AS, BA, BS, MA, MS, etc.

9 & 14b. Full-time generally means taking at least 12 credit hours in a term or 24 hours per week. Half-time generally means taking at least 6 credit hours in a term or 12 clock hours per week.

<u>Family Members in Household</u>

15. Read the directions on the application carefully to be sure you count all members of your family.

16. Family Member Listing

Be sure to complete all parts of this question. Print clearly. Include information about all family members reported in question 15. If you have more than six people in your family, list first those who will be in early care and education, out-of-school-time programs, school, or college at least half-time. List the remaining family members on page 4, in Section I.

a. - b.) Complete this information for all family members, starting with the full name of each child listed in Section A. Supply a "relationship code" for each family member to show how each is related to the children listed in Section A (see the box of codes under the family listing grid). Write the current age, as of today, for each family member.

c.) Provide the name of the early education or child care program, school, or college each family member is currently attending. Write "none" for the family members who are not enrolled in any kind of school, training, or college.

d. -e.) Write in the current total tuition and fees for an early education or child care program, school, or college. Do <u>not</u> deduct financial aid, loans, grants, scholarships, gifts from relatives, student earnings, or other sources. If there are different prices, use the amount charged to those who pay the full amount with no assistance. Then, write in the amount that you pay. Indicate if the amount is for the year (yr.) or per month (mo.) or week (wk.).

f.) Plans for 2000-2001: Check off the item that applies and whether or not an application for financial aid has been submitted. "Child care or early ed" includes preschool, nursery school, child care center, family child care home, school-age or out-of-school time programs or pre-kindergarten programs operated by preschools or child care centers. If the child will be in pre-kindergarten in a public or private elementary school, check the box that applies.

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Section C — GOVERNMENT ASSISTANCE

17. If you receive either of the two types of government assistance listed in this section, you are not required to complete Sections D, E, F, G, & H. of this form. If you were directed by any earlier questions to provide information in Section I, be sure these answers are complete. Then, go to Section J and sign the certification statement.

Section D — PARENTS' 1999 INCOME AND BENEFITS

Complete your 1999 federal tax return before completing this section. If this is not possible, estimate 1999 income and benefits, using income and tax records from 1998 in addition to records and forms from 1999. If you will not file a tax return, it will still be necessary to report your earnings for the year.

If there are two parents listed in Section B and you filed separate tax returns for 1999, be sure to include both parents' exemptions, income, and taxes in questions 19 though 21 and in question 25. Add the figures for each item from the forms and enter the totals in the spaces provided.

If you are a single parent who is divorced or separated, and you filed (or will file) a joint tax return with your former spouse, give only your share of the exemptions, income, and taxes asked for in questions 19 through 21 and in question 25.

19. Write in the 1999 number of exemptions reported on the federal tax return, found on IRS Form 1040 or 1040A, line 6d. If you used the 1040EZ and checked "Yes" on Form 1040EZ, line 5, use the 1040EZ worksheet to determine the number of exemptions. If you checked, "No" or you are single, enter "1." If you are married, enter "2." If you used Telefile, use line J to determine the number of exemptions ($2750 equals one exemption). Remember to add the number of exemptions from both parents' tax forms if there are two parents listed in Section B, and you are filing separately.

20. Adjusted Gross Income (AGI) is the taxable income, after exemptions and deductions, reported on the federal tax return, found on IRS Form 1040, line 33 or Form 1040A, line 18 or Form 1040EZ, line 4, or TeleFile, line K.

20a-e. Enter the amount of each type of income from the corresponding line of your 1999 tax form, as shown on the application form (see information about 20e below). If you haven't yet filed, use your 1998 tax return as a guide, and estimate the amount with records from 1999, such as W-2 and 1099 forms.

20e. Enter the total from IRS form 1040, lines 10,11,13,14,15b, 16b, 19, 20b, and 21 or 1040A, lines 10b, 11b, 12, and 13b or 1040EZ, line 3. This includes alimony received, unemployment compensation, capital and other gains or (losses), taxable refunds or credits, taxable portions of IRAs, pensions, annuities, and social security, and other taxable income. Subtract losses in this category from other income in this category.

20f. Write in the amount of *Adjustments to Income* from IRS Form 1040, line 32 or 1040A, line 17. **Don't** write in the Adjusted Gross Income. **Don't** write the total of questions 20a-e in 20f.

The total of questions 20a-e minus 20f should equal the amount entered for question 20 (Adjusted Gross Income).

21. Write in the amount of U.S. income tax paid from IRS Form 1040, line 49 plus 51 or 1040A, line 32, or Form 1040EZ, line 10, or Telefile, line K. Make sure that this amount doesn't include any FICA, self-employment, or other taxes from Form 1040. **Don't** copy the amount of "federal income tax withheld" from a W-2 form.

22 –23. If you filed or will file a tax return, report the "wages, salaries, tips, etc." from IRS Form 1040, line 7 or IRS Form 1040A, line 7, or Form 1040EZ, line 1. Report the wages separately for each parent listed in Section B, even if you filed a joint return. If you have income from business or farm, also add in the numbers from Form 1040, lines 12 & 18.

If you haven't yet filed or will not be filing a tax return, report earnings from work in 1999. Add up the earnings from Box 1 on the W-2 Form(s) for each parent and any other earnings from work that are not included on the W-2 Forms. If earnings are from self-employment, enter the amount you took as personal income from your business in 1999. (Don't include the amount you paid out for business expenses.)

24. Read the instructions for each item below and enter the correct amount in the space provided. Be sure to count the amount received by both parents reported in Section B and for all dependent children listed in question 16.

a.) Write in the amount of untaxed Social Security benefits, including Supplemental Security Income (SSI) received in 1999. **Don't** include any benefits reported in question 22. Write the amount for the year (not the monthly amount). Be sure to include the amounts received for all children listed in the Family Member Listing, question 16 on page 2, as well as for the parents.

b.) Write in the total amount of child support received for 1999 for all children in the Family Member Listing; question 16 on page 2. Write the amount for the year, not the monthly amounts. **Don't** include foster care or adoption payments.

c.) Enter the deductible IRA and/or Keogh payments from IRS Form 1040, total of lines 23 and 29 or Form 1040A, line 15.

d.) Write in payments to tax-deferred pension and savings plans (paid directly or withheld from earnings) as reported on W-2 Forms, in Box 13, codes D, E, F, G, H, and S. Include untaxed portions of 401(k) and 403(b) plans.

e.) Write in amount withheld from wages for dependent care accounts, as reported on W-2 Forms, in Box 10.

f.) Write in amount withheld from wages for medical spending accounts, as reported on W-2 Forms, code R in Box 13.

g.) Write in the amount of housing, food, and other living allowances received by members of the military, clergy, and others (including cash payments and cash value of benefits). **Don't** include rent subsidies for low-income housing.

h.) Write in the amount of tax-exempt interest income (IRS Form 1040, line 8b or 1040A, line 8b)

i.) Write in the amount of cash gifts you receive or any money paid on your behalf for any of your living or other expenses. Include money given to you by family and friends to pay for child care. **Don't** include financial assistance for child care paid directly to a child care provider for your child(ren) by an employer, agency, or others. **Don't** include amounts designated for child care for your child(ren)and given to you to pay the provider (such as money provided by an employer or a public or private agency). **Don't** include child support.

j.). Check the list below carefully for any other income and benefits you may have received. Fill in the worksheet with the total amount you received for each in 1999, and enter the total in item 24j.

	Amount
Workers' Compensation	$ ________
Temporary Assistance to Needy Families (TANF) or other welfare benefits	+ ________
Untaxed portions of pensions from IRS forms (excluding "rollovers")	+ ________
Veteran's non-educational benefits such as Death pension, Dependency and Indemnity Compensation	+ ________
Black Lung Benefits	+ ________
Refugee Assistance	+ ________
Untaxed portions of Railroad Retirement benefits	+ ________
Any other untaxed income and benefits	+ ________
Total (enter in item 24 j.)	= ________

25. a.) Write in the amount of the Dependent Care Credit claimed for child care from IRS Form 1040, line 41 or 1040A, line 26.

b) Write in the amount of any state dependent care tax credit or deduction claimed for child care from your state tax forms, if this is available in your state.

26. If you received financial assistance or vouchers to pay for early education or child care for your dependent child(ren) or if financial aid was paid directly to early education/child care programs for your children, list the total annual amount you received. On page 4, Section I, list the sources (name of each business or agency that provided the assistance) and the amount each provided.

27. If you received or will request the Federal Earned Income Credit (EITC) when you file your tax return for 1999, mark the YES box. Otherwise, mark the NO box.

Section E — PARENTS' EXPENSES FOR 1999

This section collects information about 1999 expenses for child support, extraordinary medical and dental expenses, and education loan payments. If you have unusual expenses, such as those related to a period of unemployment or disability, illness, or pregnancy, report the amount here. If there are two parents listed in Section B, be sure to include both parents' expenses in answering the questions in this section.

28. Write in the amount of the child support that you paid in 1999 for dependent children living outside your home. **Don't** include child support received for support of dependent children living in your home.

29. Write in the total amount of educational loan repayments that you made in 1999. Include loans you obtained for your own education or loans you obtained for the college education of your children. **Don't** include loans that your children obtained for their own education and that you have agreed to pay.

30. Write in the amount of money you paid in 1999 for medical and dental expenses, including insurance premiums. If you itemized deductions on your U.S. income tax return, write in the amount from Form 1040, Schedule A, line 1. **Don't** include amounts covered by insurance or health insurance deductions for the self-employed from IRS Form 1040, line 28.

31. Write in the amount of unusual expenses that are not included in questions 27, 28, and 29, such as those related to elder care, non-medical uninsured expenses due to long-term illness, and uninsured losses from a fire, storm, or other natural disaster. **Don't** include expenses for education or child care, or purchases and payments of debts. Explain unusual expenses in Section I.

Section F – PARENTS' 2000 EXPECTED INCOME AND BENEFITS

In this section, report the total annual amount of income and benefits you expect to receive during 2000. If there are two parents listed in Section B, be sure to include both parents' income and benefits in answering the questions in this section. If the total income for 2000 is expected to be different than your total 1999 income, explain in Section I.

32-33. Write in the 2000 gross income to be earned from work by the parents listed in Section B. Include wages, salaries, and tips. If earnings are from self-employment, enter the total amount you will take as personal income from your business income during the year. (Don't include the amount you expect to pay our for business expenses.)

34. Write in the 2000 amount of "other taxable income" that you will report on your 2000 IRS Form 1040, 1040A, or 1040EZ. Include interest and dividend income and any other taxable income. These are the same types of income that are listed in question 20 b, c, d, and e. **Don't** include any income reported in questions 32 and 33.

35. Write in the total amount of untaxed income and benefits you expect to receive in 2000. These are the same types of income and benefits that are listed in question 24.

36. Write in the total annual amount of financial assistance or vouchers you expect to receive in 2000 for early education/child care from your employer or other sources. On page 4, Section I, list the sources (name of each business or agency that provides the assistance) and the amount each is expected to provide for each child.

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Section G – PARENTS' ASSETS

If there are two parents listed in Section B, be sure to include both parents' assets in this section. If either of you, or both of you together have jointly owned assets with someone else, enter only your share of the assets and debts. If you are a single parent and have jointly owned assets with someone else, enter only your share of the assets and debts in this section. Be sure to include information about assets held in trust for you. In items 37-43, do not include:

- Personal or consumer loans or any debts that are not related to the assets listed,
- The value of retirement plans (pension funds, annuities, IRAs, Keogh plans, etc.),
- Student financial aid, or
- Cars used for family transportation

37a. Write in the total amount of all your money that is usually kept in cash and in checking account(s). Write the amount that is usually left each month after paying living expenses.

37b. Write in the total of all money in held in savings accounts.

38. Write in the total value of parents' assets held in the names of all children in the household under age 18. Include funds in custodial accounts, Uniform Gifts to Minors accounts, or any other savings and investment accounts held in the names of the dependent child(ren) listed in Section B, Family Member Listing, question 16 on page 2.

39. If you own a home,

a.) Write in the year the home was purchased.

b.) Write in the purchase price of the home.

c.) Write in how much the home is worth. Use the price you could reasonably expect to receive for the home if it were sold today. (**Don't** use assessed, insured, or tax value). A "home" includes a house, mobile home, condominium, etc. Renters should write in $0. **Then,** write in how much is owed on the home, including the present mortgage and related debts on the home. **Don't** include interest due. Check with the mortgage company if you are not sure of the amount.

d.) Write in the amount paid each month for rent (if you don't own your home) or for your home mortgage. **Don't** include property tax and insurance in the amount. If you don't make a rental or mortgage payment, explain on page 4, Section I.

40. If you have investments, write in the total worth of these investments today. (Be sure to include: Trust funds, stocks, bonds, savings bonds, mutual funds, money market accounts, Certificates of Deposit, Education IRAs and/or college savings plans held for any of your children or yourself, commodities, precious and strategic metals, installment and land sale contracts, any other investments.) **Then,** write in how much is owed on the investments.

41. If you own a business, write in the value today. To determine the value, include the value of land, buildings, machinery, equipment, inventories, etc. Be sure to write the name of the business and percent of ownership in Section I. **Then,** write in the amount you owe on the business. Include only present mortgage and related debts for which the business was used as collateral. If you are not the sole owners, write in only your share of the total value and debt.

42. If you own a farm, write in the value today. To determine the value, include the value of land, buildings, machinery, equipment, livestock, inventories, etc. (**Don't** include the home if it is part of the farm; report the home in question 39.) To determine the debt, include only the present mortgage and related debts for which the farm was used as collateral. If you are not the sole owners, write in only your share of the total value and debt.

43. If you own other real estate (including rental property, land, time-shares, second or summer homes), write in how much these assets are worth today. **Then,** write in how much is owed on these properties. If you are not the sole owners, write in only your share of the total value and debt.

a.) Write in the year that the property was purchased. (If more than one property is owned, write the year and price for each property in Section I.)

b.) Write in the purchase price of the property reported in 43a.

Section H — NON-CUSTODIAL PARENT

If a child in Section A has a parent who is alive, does not live with you, and is not listed in Section B, provide the information requested in this section about the non-custodial parent. If children in Section A have different non-custodial parents, provide the requested information about each on a separate sheet of paper Also use this section to provide information about a parent who has joint custody, or who shares custody equally with you.

44. It is not necessary to provide the information requested in this question for this test application.

45. Write in the name of the child(ren) in Section A whose parent is listed here.

46. Write the name of the parent who last claimed the child or children as an exemption on his or her federal taxes. Be sure to include the year the exemption was claimed.

47. Indicate the relationship of this non-custodial parent to you, the custodial parent.

48. Indicate the year of separation from this parent. If you were divorced, write in the year of divorce, and the date of the divorce decree, if any.

49. Write the amount that this parent now contributes or plans to contribute toward his or her child's child care or early education expenses each month. **Don't** write the amount of child support or the amount of alimony you receive.

50. If there is a written agreement specifying the amount this parent will pay for child care, provide information in Section I.

Section I — EXPLANATIONS/SPECIAL CIRCUMSTANCES

If you are providing an explanation requested in a question, be sure to include the question number. You may also use this space to provide information about any special circumstances that may affect your ability to pay early care and education or out-of-school time expenses, such as loss of employment, serious illness, or disabilities. Please print neatly. Attach additional paper as needed.

Section J — CERTIFICATION

Signatures are required from the parent(s) listed in Section B. If there are two parents, both must sign. This certifies that all information on the form is true and complete for each parent. A signature is not required from a non-custodial parent.

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